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Policies and procedures for the administration of trust funds in the United Nations system organizations

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the report of the Joint Inspection Unit on "Policies and procedures for the administration of trust funds in the United Nations system organizations" (JIU/REP/2010/7).

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JIU/REP/2010/7

POLICIES AND PROCEDURES FOR THE ADMINISTRATION OF TRUST FUNDS IN THE UNITED NATIONS SYSTEM ORGANIZATIONS

Prepared by

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Joint Inspection Unit

Geneva 2010

United Nations

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United Nations, Geneva 2010

EXECUTIVE SUMMARY

Policies and procedures for the administration of trust funds in the United Nations system organizations

JIU/REP/2010/7

Objective

To review the policies, rules and regulations in force in connection with the management and administration of trust funds, as well as the major trends in the overall volume and use of trust funds in United Nations system organizations, so as to identify the specific problems in managing different types of trust funds, as well as best practices in trust fund administration, with a view to promoting system-wide coherence and enhancing the effectiveness and efficiency of trust fund management and administration.

Main findings and conclusions

The report contains 13 recommendations, four of which are addressed to the legislative bodies of the United Nations system organizations, five to their executive heads, three to the United Nations System Chief Executives Board for Coordination (CEB), and one to the heads of internal audit of the organizations.

There has been an overall increase in funding for trust funds within the United Nations system over the past three bienniums. The high number of trust funds using different mechanisms and funding modalities has led to fragmentation of the funding architecture. United Nations system organizations should strengthen the integrated management of the regular and extrabudgetary resources and enhance their efforts to invite donors to increase the portion and volume of resources to thematic trust funds and other types of pooled funds, so as to ensure that the extrabudgetary resources, including those for trust funds, are in line with the strategic and programmatic priorities of the organizations, in order to facilitate more efficient trust fund management (**Recommendations 1 and 2**).

The relevant regulations, rules, policies and other administrative issuances governing trust fund management are contained in various documents, complemented by different standard agreements, reporting templates, etc. They have also been subsequently amended through separate communications and internal memoranda in several cases. The documents are often not, or not easily, accessible to all staff involved in trust fund administration. The existing legal instruments for the administration and management of trust funds should be consolidated and made available and accessible in user-friendly format to all staff concerned (**Recommendation 4**).

While the organizations have concluded long-term framework or partnership agreements with some donors, in the majority of cases, individual negotiations with donors requesting accommodation of additional provisions, requirements and conditionalities are common, which significantly increases the workload of the organizations. Organizations should, as far as possible, try to use long-term framework and partnership agreements, as well as other standard instruments for their trust funds. This applies, in particular, to reporting on trust funds.

Harmonized cost recovery policies and principles for trust funds and activities financed by other extrabudgetary resources, including an unambiguous rule on programme support costs (PSC) and the categories of costs to be charged directly are needed in order to prevent unfair competition for resources among United Nations system organizations, and to ensure comparability and full transparency on the administrative and support costs for trust funds (**Recommendations 6 and 7**).

Given the growing volume and number of trust funds and the inherent related risks, United Nations system organizations should strengthen the audit coverage of trust funds, including issues directly related to the operation and management of the big trust funds and other extrabudgetary resources (**Recommendation 11**). At the same time, they should ensure that the risks related to trust fund management and administration are assessed, and adequate measures are taken to manage them (**Recommendation 3**).

There has been a significant increase in the volume and number of multi-donor trust funds (MDTFs). While, in general, a good institutional framework for MDTFs has been established, some administrative issues should be addressed. The operation of the existing framework and the lessons learned with respect to MDTFs should be reviewed and their governance and audit coverage, in particular, should be improved (**Recommendations 12 and 13**).

Recommendations for consideration by the legislative organs

Recommendation 1

The legislative bodies of the United Nations system organizations should strengthen the integrated management of the regular budget and extrabudgetary resources in order to ensure that the extrabudgetary resources, including the trust funds, are in line with the strategic and programmatic priorities of the organizations.

Recommendation 2

The legislative bodies of the United Nations system organizations should invite all donors to respond favourably to the efforts made by the organizations to increase the portion and volume of thematic trust funds and other types of pooled funds, in order to facilitate more efficient trust fund management.

Recommendation 7

The legislative bodies of the United Nations system organizations should review the harmonized cost recovery policies and principles for trust funds and activities financed by other extrabudgetary resources, once they have been agreed within the CEB, with a view to updating the cost recovery policies of their organizations accordingly.

Recommendation 12

The Executive Board of the United Nations Development Programme (UNDP) should put on its agenda the experiences and lessons learned from the operations of the UNDP-MDTF Office with a view to presenting it to the Economic and Social Council (ECOSOC) for consideration within the framework of the triennial and quadrennial comprehensive policy reviews (TCPR/QCPR).

CONTENTS

			Page
	EXECUTIVE SUMMARY		4
	ABBREVIATIONS		7
Chapter		*Paragraphs*	
I.	**INTRODUCTION**	1-13	8
	A. Objective and focus	1-8	8
	B. Background	9-13	9
II.	**VOLUME, TRENDS AND DYNAMICS OF TRUST FUNDS**	14-27	10
III.	**MAJOR RISKS IN TRUST FUND MANAGEMENT**	28-32	16
IV.	**INSTITUTIONAL FOUNDATIONS**	33-52	17
	A. Legislative framework	33-38	17
	B. Organization-donor relations	39-48	19
	C. Governance structure of trust funds	49-52	21
V.	**ADMINISTRATIVE AND FINANCIAL ISSUES**	53-103	22
	A. Cost recovery	53-66	22
	B. Reporting on trust funds	67-73	26
	C. Operational reserve	74-76	28
	D. Interest income on trust funds	77-79	28
	E. Delegation of authority	80-86	29
	E. Introduction of IPSAS	87-89	30
	G. Closing of trust funds	90-92	31
	H. Auditing of trust funds	93-99	32
	I. Evaluation of trust funds	100-103	33
VI.	**MULTI-DONOR TRUST FUNDS**	104-117	34

Annexes

I.	Resource distribution between regular budget and trust fund resources	39
II.	Distribution of trust funds by donors	40
III.	Programme support cost (PSC) rates applied to trust funds in selected UN system organizations	41
IV.	UNDP Multi-Donor Trust Fund Office: Funds transferred to participating organizations as of 31 December 2009	43
V.	Overview of action to be taken by participating organizations on JIU recommendations	44

ABBREVIATIONS

AA	Administrative agent
AAA	Accra Agenda for Action
ADB	Asian Development Bank
APO	Associate Programme Officer
CEB	United Nations System Chief Executives Board for Coordination
CERF	United Nations Central Emergency Response Fund
CTBTO	Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization
ECOSOC	Economic and Social Council
ERM	Enterprise risk management
ERP	Enterprise resource planning
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EU	European Union
FAFA	Financial and Administrative Framework Agreement between the European Community and the United Nations
FAO	Food and Agriculture Organization of the United Nations
HLCM	High Level Committee on Management
IAEA	International Atomic Energy Agency
ICAO	International Civil Aviation Organization
ILO	International Labour Organization
IMO	International Maritime Organization
IPSAS	International Public Sector Accounting Standards
ITU	International Telecommunications Union
JIU	Joint Inspection Unit
MDTF	Multi-Donor Trust Fund
MOU	Memorandum of Understanding
OHCHR	Office of the High Commissioner for Human Rights
OIOS	United Nations Office of Internal Oversight Services
PBF	United Nations Peacebuilding Fund
PSC	Programme support costs
QCPR	Quadrennial Comprehensive Policy Review
RB	Regular budget resources
TCPR	Triennial Comprehensive Policy Review
UNCT	United Nations Country Team
UNCTAD	United Nations Conference on Trade and Development
UNDG	United Nations Development Group
UN-DOCO	United Nations Development Operations Coordination Office
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNSAS	United Nations System Accounting Standards
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNTFHS	United Nations Trust Fund for Human Security
UNWTO	United Nations World Tourism Organization
UPU	Universal Postal Union
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
XB	Extrabudgetary resources

I. INTRODUCTION

A. Objective and focus

1. As part of its programme of work for 2010, the Joint Inspection Unit (JIU), in response to a suggestion from the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), conducted a review of the policies and procedures for the administration of trust funds in United Nations system organizations.

2. Its objective was to review the trust funds' policies and the major trends in the overall volume and use of trust funds in United Nations system organizations, the general and specific rules and regulations in force in connection with trust fund management, and identify specific problems in managing different types of trust funds, as well as best practices in fund administration, with a view to promoting system-wide coherence. The review focused only on administrative and managerial aspects of the trust funds and did not cover any programmatic issues. It addressed the organizations' relationships with donor countries and other donors, including earmarking, fulfilment of reporting requirements and other conditional ties; the division of responsibilities in trust fund administration, including delegation of authority; cost recovery policies; accounting and financial management issues; and oversight problems with respect to trust fund administration and management, including those related to monitoring, evaluation and auditing of trust funds.

3. In accordance with the internal standards and guidelines of the JIU and its internal working procedures, the methodology followed in preparing this report included a preliminary review, questionnaires, interviews and an in-depth analysis. Interviews were held at Geneva, New York, Vienna, Rome, Paris and Bangkok with officials of most JIU participating organizations, in addition to the Secretariat of the United Nations System Chief Executives Board for Coordination (CEB), the United Nations Development Operations Coordination Office (UN-DOCO) and the United Nations Development Programme (UNDP) Multi-Donor Trust Fund (MDTF) Office. Given the wide range of issues reviewed, it was not possible to carry out an in-depth review of all of them in each United Nations system organization. Therefore, if reference is made to some organizations in a certain context, it is done so as to provide examples, and it does not necessarily mean that the situation in other UN system organizations is similar/different.

4. The review covered JIU participating organizations. The International Atomic Energy Agency (IAEA), the United Nations High Commissioner For Refugees (UNHCR) and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) indicated that they did not have significant activity funded from trust funds. The International Maritime Organization (IMO) and World Intellectual Property Organization (WIPO) provided statistical data on trust funds but did not respond in writing to the questionnaire. No information was received from the Universal Postal Union (UPU). Taking into account that information was received in the form of written responses from the overwhelming majority of the organizations, and interviews carried out by the Inspectors in different duty stations covered the bulk of trust fund-financed activity of the participating organizations, the identified trends and practices of trust fund management can be considered as a characteristic footprint across the system.

5. As is customary, comments on the draft report were sought from the participating organizations, and taken into account in the final report.

6. In accordance with article 11.2 of the JIU statute, this report was finalized after consultation among the Inspectors so as to test its conclusions and recommendations against the collective wisdom of the Unit.

7. To facilitate the handling of the report and the implementation of its recommendations and the monitoring thereof, annex V contains a table indicating whether the report is submitted to the organizations concerned for action or for information. The table identifies those recommendations relevant for each organization, specifying whether they require a decision by the legislative body of the organization or can be acted upon by its executive head.

8. The Inspectors wish to express their appreciation to all those who assisted them in the preparation of this report, and particularly to those who participated in the interviews and so willingly shared their knowledge and expertise.

B. Background

9. There is no agreed definition of the term "trust fund" within the United Nations system. In the United Nations Secretariat, trust funds are defined as "accounts established with specific terms of reference or under specific agreements to record receipts and expenditures of voluntary contributions for the purpose of financing wholly or in part the cost of activities consistent with the organization's aims and policies."[1] Other United Nations system organizations use different terms and definitions. For instance, United Nations Educational, Scientific and Cultural Organization (UNESCO) refer to such funds as "funds-in-trust," defined as "contributions accepted by the Organization to finance extrabudgetary activities previously agreed with the donor. They are established by specific agreement with the donor. Funds-in-trust are the most appropriate arrangement for structuring contributions from a single donor to whom UNESCO is held accountable for financial reporting on the resources committed for the implementation of a given project."[2] World Health Organization (WHO) uses the term "core voluntary contributions" in official communications. These are funds specified or unspecified to finance the established objectives of the Strategic Programme, but in many aspects they have a lot of similarities with the thematic or project-based trust funds. Some organizations do not define trust funds, or the definition is very general, although their financial regulations and rules, as well as other administrative guidelines and manuals refer to trust funds and regulate and govern their use.

10. The fact that there is no generally accepted terminology and definition for trust funds in the United Nations system organizations caused difficulties during the review, in particular, with regard to its scope and the accuracy of data received. During the course of the review, the following terms were used: **regular budget resources** (RB), understood as assessed Member State contributions to the budget of the organization; **extrabudgetary resources** (XB), understood as additional voluntary contributions, other than the assessed contributions, to the organization; and **trust funds,** meaning part of the extrabudgetary resources provided to organizations on the basis of specific agreements with the donors for specific purposes. Receipt and expenditure thereof are accounted for and reported to the donors separately, and ownership of the funds belongs to the donor until the closure of the funds. The Inspectors noted that in some organizations, certain extrabudgetary contributions were not registered as trust funds although they have the attributes of trust funds. Similarly, in some cases, there were difficulties on how to differentiate trust funds from other types of voluntary contributions, for example,

[1] ST/SGB/188, Annex, paragraph 2.

[2] UNESCO Administrative Manual, 16 November 2009, paragraph 2.5.

special accounts. Consequently, the Inspectors used and relied on data and information received from the organizations to identify the major trends and dynamics of the volumes and types of trust funds.

11. The use of trust funds for various activities in different United Nations system organizations is widespread practice. During the past decade, the volume of voluntary contributions, including that for trust funds, increased significantly and constituted a major source of financing for activities of the United Nations system organizations. The increase in voluntary contributions was higher than the increase in regular budget resources in the great majority of United Nations system organizations. In the majority of organizations, the overall volume of trust funds also increased during this period. The bulk of these trust funds were project-based, self-benefiting or thematic funds. Since 2004, a significant increase in terms of number and volume of funding has also been observed with respect to Multi-Donor Trust Funds (MDTFs), which became a popular funding modality, for instance, in the field of humanitarian assistance, funding for transition, peace-building, development and other country-level activities of the United Nations system.

12. Some organizations (e.g., UNDP, UNESCO) responded to these developments with increased attention, and updated their policies, rules and regulations for administering voluntary contributions, including trust funds, while others (e.g., United Nations Secretariat) paid less attention to these developments. The administration and management of trust funds in the latter organizations are still governed by regulations and rules adopted over 20 years ago. There is also significant variation in the level of detail of the regulations, rules and policies governing the administration and management of trust funds. Some organizations have developed detailed guidelines and manuals for their trust funds to complement the often general provisions of their financial regulations and rules, while others have not. Consequently, in the latter organizations, administration and management of trust funds is often carried out on an ad hoc basis with higher transaction costs, rather than in a structured, consistent and more efficient manner.

13. There has never been a system-wide review of trust fund management and administration in the United Nations system organizations. In 1972, JIU issued a Report on Trust Funds of the United Nations (JIU/REP/72/1), which covered certain aspects of trust fund administration in the United Nations and its funds and programmes. Other JIU reports have dealt with selected aspects of the subject, such as the JIU reports on Voluntary contributions in the United Nations system organizations: impact on programme delivery and resource mobilization strategies (JIU/REP/2007/1), and Support costs related to extrabudgetary activities in the organizations of the United Nations system (JIU/REP/2002/3). Further, the external and internal auditors of the United Nations system organizations and their evaluation offices have issued various reports touching on the administration and management of trust funds. Those reports, as well as the discussions and ongoing debate at the CEB/HLCM/UNDG level on pertinent issues, such as cost recovery policies, cost categories and issues related to MDTFs were taken into account in the appropriate context.

II. VOLUME, TRENDS AND DYNAMICS

14. There has been an overall increase in funding for trust funds within the United Nations system over the past three bienniums, from about US$ 12.1 billion in the 2004-2005 biennium to about US$ 15.1 billion in 2006-2007, and about US$ 16.8 billion in the 2008-2009 biennium.[3] Increase in the funding volume of trust funds is a general phenomenon across the system and concerns both the United Nations funds and programmes and the specialized agencies. The highest increase was noted at the

[3] See Figure 1 and Annex II herein.

Food and Agriculture Organization of the United Nations (FAO), United Nations, United Nations Population Fund (UNFPA) and United Nations Children's Fund (UNICEF).

Figure 1: Dynamics of trust funds within the past three bienniums in organizations with large volumes of trust funds

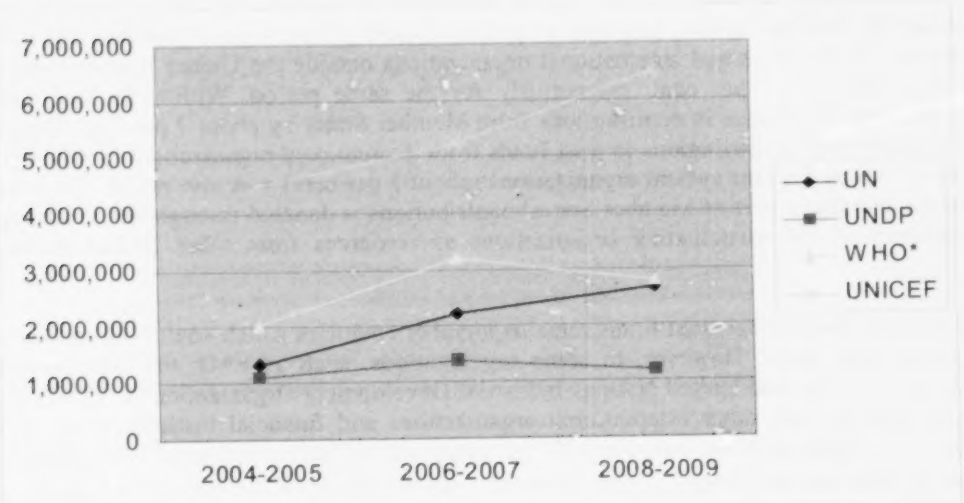
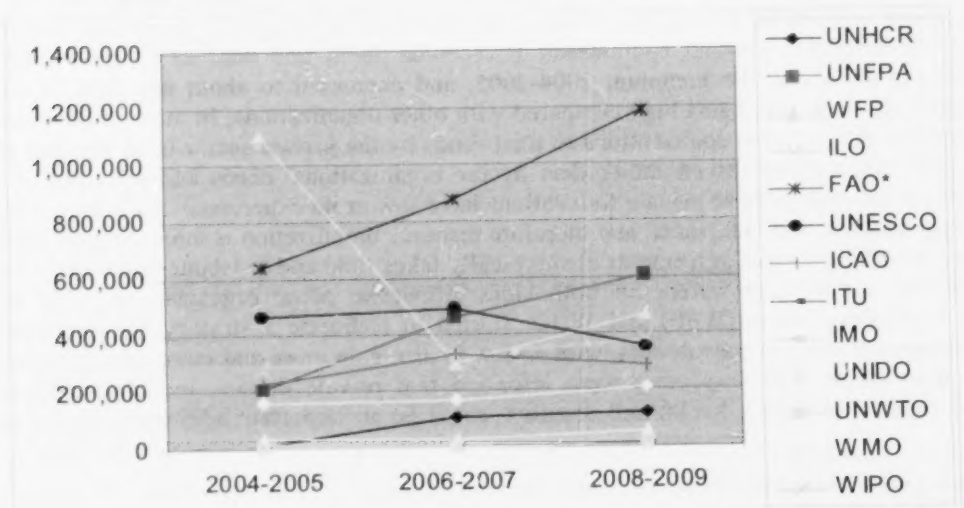


Figure 2: Dynamics of trust funds within the past three bienniums in organizations with small volumes of trust funds



Source: Information provided by the organizations

15. Within the overall increase in funding volume of trust funds administered by the United Nations system organizations, there has been a significant increase in funding through the MDTFs, with accumulated commitments by donors totalling about US$ 4.5 billion between 2004 and 2009.[4] As at 31 December 2009, US$ 3.02 billion had been transferred by the MDTF Office. The distribution of transfers among the participating organizations is shown in Annex IV.

16. Concerning the source of the trust funds,[5] for the 2008-2009 biennium, the major share (61 per cent) was contributed by Member States, followed by private donors (19 per cent). Contributions from other United Nations organizations and international organizations outside the United Nations system amounted to 9 per cent and 11 per cent, respectively for the same period. Within the last three bienniums, there has been a decrease in contributions from Member States by about 7 per cent. During the same period, an increase in contributions to trust funds from international organizations (about 8 per cent) and from other United Nations system organizations (about 5 per cent) was also noted. The latter may be related to the fact that a part of Member States' contributions is donated through MDTFs which appear in the statistics of the participating organizations as resources from other United Nations organizations.

17. The major source of funding for trust funds remains member countries which contribute mostly in the form of bilateral trust funds. However, in some organizations, such as FAO, the International Labour Office (ILO), UNICEF, and United Nations Industrial Development Organization (UNIDO), the financial resources from/through other international organizations and financial institutions are also significant and have increased over the past years.[6] The organizations have more experience working with governments, as they are in constant contact through representatives in the respective legislative bodies, which facilitates fund-raising, resource mobilization, as well as conclusion, through the established networks, of framework and partnership agreements with some major donor countries, thereby enabling multi-year programming of those resources.

18. Contributions to trust funds from private donors are limited but overall slightly increasing. The exception in this regard is UNICEF having had a long tradition of cooperating with the private sector, including through the UNICEF national committees. It received about one third of its trust funds resources from private donors in the biennium 2004-2005, and decreased to about one fifth in the biennium 2008-2009, although it remains high compared with other organizations. In most of the other United Nations system organizations contributions to trust funds by the private sector is ad hoc and in most cases also very much donor driven rather than by the organizations' needs and priorities. An additional problem is that usually these private foundations have few or no experience in working with United Nations organizations, and vice versa, and therefore resource mobilization is more difficult than with public donors. Reaching formal agreements also typically takes time and is labour intensive, with legal implications and unchartered waters on both sides. However, some organizations, such as UNESCO, World Food Programme (WFP) and WHO, started to elaborate a strategy for improved fundraising and cooperation with private donors, with a view to also gain more and more private sector contributions for trust funds. The Inspectors were informed that private donors, including private foundations in the field of childcare, health and diseases, could be an important additional source of

[4] Donor commitments to United Nations MDTFs administered by the MDTF Office as of 31 December 2009 (http://mdtf.undp.org); see also graph in paragraph 105 below.

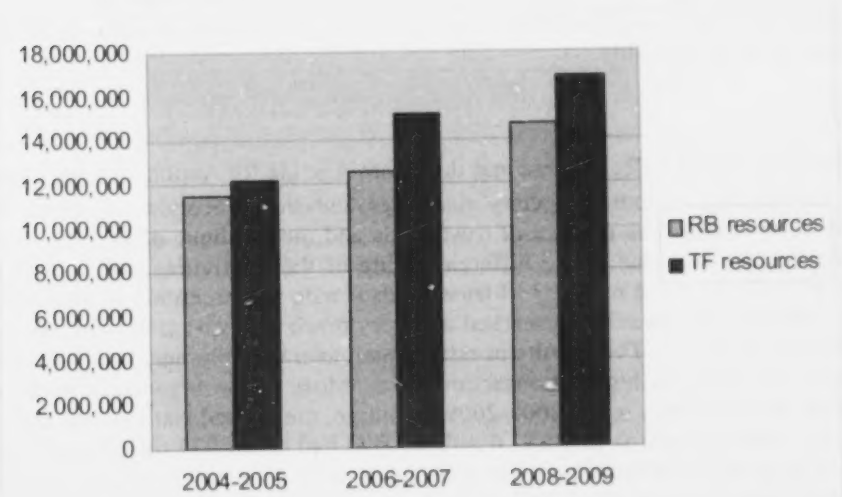
[5] Percentage calculated on the basis of data contained in Annex II, excluding WHO, UNDP and UNHCR, as those organizations did not provide a breakdown by donor category. The private donors category also included other donors.

[6] See table in Annex II.

resources for trust funds, both at the global and the regional and country levels. Although the potential increase of funds from the private sector in many organizations has its limits due to the specificity of mandate the cooperation with them would allow to widening the donors' base and it may also have positive impact on the organizations' image building. The Inspectors concur with this observation, with the understanding that such contributions should be driven by the organizations, in line with their needs and priorities.

19. The increasing volume of trust funds is in line with the general trend of increasing extrabudgetary/voluntary contributions across the system, with, at the same time, stagnating and/or only slightly increasing regular budget resources. This has led to a growing share of resources allocated to trust funds in relation to regular budget resources in the great majority of the United Nations system organizations. Apart from impacting programming, planning and budgeting in the organizations, this situation is a major source of fragmentation for the funding architecture of the organizations. Figure 3 shows the overall regular budget and trust fund resources in United Nations system organizations in the past three bienniums.

Figure 3: Dynamics of regular budget and trust fund resources in the past three bienniums



Source: CEB data (A/65/187) for RB; responses to JIU questionnaire for TF.

Integrated budget

20. In contrast to former practice where contributions to trust funds, as other voluntary contributions, were handled separately from the regular programme and budget as an additional, and mainly ad hoc, source of income, the organizations have started to develop integrated programmes and budgets covering both regular and extrabudgetary resources, including those for trust funds, which are often complemented by a strategic framework and/or results-based approach outlining the organization's

short- and medium-term strategic priorities. Related good practices in FAO, UNDP, UNESCO, UNFPA, UNICEF and WHO were brought to the attention of the Inspectors.

21. Although donor priorities continue to play an important and frequently determining role, the Inspectors were informed that the integrated priority-based programmatic planning approach through integrated programmes and budgets and strategic frameworks created better conditions for ensuring that resources allocated to trust funds are more programme driven and in line with the organizations' needs and priorities. The Inspectors also learned that some organizations have rejected certain funding offers for trust funds, if the objectives and conditions attached to them made them incompatible with the organizations' strategic priorities or mandates.

22. Organizations group the trust funds in different ways but the most frequent is to distinguish project-based funds, self-benefiting funds (offered by the beneficiary country), thematic funds (broad or thematic earmarking) and MDTFs. Due to the different classifications and the accounting difficulties associated with blurring lines between the various types of trust funds, the data in the written responses were not fully comparable and did not enable assessing and comparing the proportions between the different kinds of trust funds. The volume of self-benefiting trust funds is very much organization- or country-specific, and in certain regions (e.g., Latin America, Arab Region) and field of activities (e.g., education, food) it can be significant. The volume of thematic trust funds is generally low, but in a few organizations, it can be close to 20-30 per cent. The MDTF mechanism is well below 10 per cent, but in some organizations, it is a fast-growing modality.

Fragmentation of resources

23. Despite the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (AAA),[7] data indicates that, in general, earmarking of extrabudgetary resources and the allocation of resources through trust funds continue to be strong. The number of trust funds and their volume of funding vary significantly in the different organizations due to the different nature of their activities and financing practices. It was noted that, overall, the great majority of trust funds – with the exception of some big thematic trust funds and the MDTFs – are heavily earmarked and very much project-based, with strong individual reporting requirements to donors. This results in rather small average volumes, which causes fragmentation of activity and also leads to higher transaction costs. Most of the organizations have several hundreds of trust funds. For example, in the 2008-2009 biennium, the United Nations had about 450 trust funds with an overall funding volume of US$2.6 billion; ILO had about 939 trust funds with an overall volume of US$378 million; WFP had about 290 trust funds with an overall funding volume of US$ 465 million; and UNIDO had 779 trust funds with an overall volume of US$205 million.[8] While there are considerable differences in trust-fund funding volumes among the organizations and across the system in terms of actual figures and average volume, the Inspectors noted that, in general, the average trust-fund funding volume, with some exceptions, was fairly low, but increasing slightly.

24. Several organizations, such as the United Nations, United Nations Conference on Trade and Development (UNCTAD), UNDP, UNFPA and UNICEF, have started to develop trust fund clusters or to establish thematic trust funds which allow donors to provide resources with broader earmarking for a specific thematic area aligned to the organization's priority. In this respect, the Inspectors are of the

[7] The Paris Declaration is an international agreement, endorsed on 2 March 2005, in which governments made commitments to continue to increase efforts towards enhanced aid effectiveness.

[8] Data from the responses to the JIU questionnaire.

opinion that the thematic trust fund approach at UNFPA or UNICEF could be considered good practice. It ensures better alignment with the organization's strategic plan and results framework, enables multi-year funding, leads to more efficient accounting and financial management, and facilitates reporting with only one consolidated annual report issued to all donors, instead of individual reporting, consequently resulting in overall reduced transaction costs.

25. Several organizations (e.g., the United Nations, UNCTAD and UNFPA) have also made efforts and managed to reduce the number of trust funds. However, the Inspectors are of the opinion that still more needs to be done, in particular as such a fragmented trust-fund structure makes it more difficult for the organizations to ensure that the established priorities, as endorsed by their governing bodies, prevail in their activities. This can lead to inefficiencies and imbalances in terms of focus. The Inspectors are of the opinion that pooling the resources provided for the individual trust funds into bigger trust funds with more general purposes, clustering of trust funds and/or a wider use of thematic trust funds would help reduce fragmentation and better ensure that all the trust funds are closer in line with the respective priorities and needs of the organizations, thereby making them more organization-driven rather than donor-driven. Clustering of trust funds and more use of thematic trust funds would also benefit donors as fund management efficiency will be increased due to reduced transaction costs and less individual project-by-project reporting obligations. In the view of the Inspectors, **the executive heads of the United Nations system organizations should formulate proposals for thematic and other types of pooled funds with broad or thematic earmarking when preparing their programme and budget proposals, so as to facilitating more efficient and cost-effective management of trust funds.**

26. The efforts of the United Nations system organizations are in line with the Paris Declaration on Aid Effectiveness, although donor behaviour shows a much differentiated picture. Some of the traditional donors are ready and willing to follow this path, while others still prefer project-based trust funds or stronger earmarking. The Inspectors are of the opinion that the positive experience of pooled resources, the increased transparency of their operation, and the improved result-based reporting on fund management will result in a gradual increase in their proportion in the overall volume of trust funds.

27. The implementation of the following recommendations is expected to enhance the effectiveness and efficiency of trust fund management and administration, based on best practice.

Recommendation 1

The legislative bodies of the United Nations system organizations should strengthen the integrated management of the regular budget and extrabudgetary resources in order to ensure that the extrabudgetary resources, including the trust funds, are in line with the strategic and programmatic priorities of the organizations.

Recommendation 2

The legislative bodies of the United Nations system organizations should invite all donors to respond favourably to the efforts made by the organizations to increase the portion and volume of thematic trust funds and other types of pooled funds, in order to facilitate more efficient trust fund management.

III. MAJOR RISKS IN TRUST FUND MANAGEMENT

28. The use of trust funds may pose significant risks for the organizations. Furthermore, due to the varied nature of the trust funds, in terms of size, structure, activities, etc., as well as the different policies, rules and regulations in force in the various organizations, the risk exposure related to the trust funds in United Nations system organizations, and even within the same organization, is very different.

29. While the risks related to trust fund management are very similar to those related to the programming and implementation of activities financed by regular budget resources, there are certain additional risks that are specifically linked to the particular features and nature of this funding modality. Risks related to trust funds are identified through the risk assessments conducted by the United Nations organizations. Some organizations have also carried out specific risk assessments of their trust funds. In this respect, the risk assessments of United Nations trust funds carried out by United Nations Office of Internal Oversight Services (OIOS) are good examples.[9]

30. The most frequently identified risks for the organizations include:[10]

- Potential deviation from established priorities and needs, as endorsed by the organizations' governing bodies;
- Unpredictability of resources for the longer term, and non-fulfilment of donor pledges;
- Competition among United Nations system organizations for potential donors;
- Insufficient cost-recovery policies and rates, and possible cross-subsidization of trust fund activities by the regular budget resources;
- Fragmentation of activities and funding due to the high number of project-based trust funds, resulting in inefficiencies and high transaction costs;
- Inadequate monitoring, evaluation and reporting capacities, in particular, in the field or burdensome multiple reporting responsibilities;

[9] OIOS, Assignment No. AG2009/510/02 – Risk assessment of management of general trust funds.

[10] Some of the risks are specifically addressed in individual recommendations, e.g. Recommendations 1 and 2 above.

- Unclear division of responsibilities among the different organizational units involved in trust fund management, including headquarters, regional and field offices, which could also lead to potential accountability gaps and dual reporting lines;

- Poor coordination and information-sharing among the different organizational units involved in trust fund management and administration;

- Inefficient use, misuse of funds and fraud, as well as risks related to cooperation with implementing partners, who may not adhere to United Nations accounting, financial management and oversight standards, and who may not have adequate capacities in those areas;

- Losses caused by exchange rate fluctuations when the trust fund currency is different from the currency of the organization;

- Programming and implementation of activities in conflict-affected situations, such as post-conflict situations and countries-in-transition;

- Unrealistic project proposal.

31. The Inspectors are of the opinion that the United Nations system organizations should extend the scope of their organizational risk assessments by increasingly including those risks specifically related to the administration and management of trust funds, in order to better identify and mitigate them. This is of particular importance under the circumstances of the increasing volume of extrabudgetary resources, including those allocated to trust funds.

32. The implementation of the following recommendation is expected to enhance the identification and mitigation of risks related to trust fund management and administration.

Recommendation 3

The executive heads of the United Nations system organizations should ensure that risks related to trust funds are assessed, and measures are taken to manage them.

IV. INSTITUTIONAL FOUNDATIONS

A. Legislative framework

33. The basic provisions on the establishment, management and administration of trust funds are contained in the statutes and/or the financial regulations and rules of the organizations. They are usually supplemented by more detailed rules and procedures in different legal instruments, including administrative instructions, guidelines, project management or procurement manuals, circular letters, etc. The basic documents are, with some exceptions, generally old, although frequently updated through various amendments, either in the relevant document itself or often through internal memos or individual administrative communications. They are complemented with a series of standard agreements, memorandums of understanding, standard letters to donors, reporting formats, templates, etc.

34. It is often difficult to follow and find all the applicable provisions in their current form, even for the personnel dealing with trust fund management at different levels, since the provisions are contained in various legal documents, rules, administrative issuances, standard agreements, etc, which have often been amended by internal and administrative memos or communications. For example, in the case of the United Nations, the relevant Secretary-General's bulletins (ST/SGBs) and administrative instructions (ST/AIs) were issued in the 1980s. They contain detailed provisions, and may have been subsequently updated and revised (e.g. in the cases of cost recovery issues and delegation of authority) through internal memorandums communicated to the main parties concerned, but they are not easily available and accessible to all staff concerned with trust funds. The situation is similar in other United Nations system organizations.

35. The Inspectors were informed that the United Nations Secretariat has recently launched a limited-scope in-house review of existing trust fund policy and practices. It should be noted that a similar type of work had already been initiated in 2003, but was suspended without any major change in the practices and regulations in force. The new process, which is expected to be concluded at the beginning of 2011, is aimed at reinforcing current policies through a robust new system of model template agreements. At the time of writing this report, no further details were available. Some other organizations, such as the International Telecommunications Union (ITU), UNFPA, UNICEF and WFP, also indicated that they were in the process of updating and consolidating their rules and procedures for trust fund management. The Inspectors urge the organizations to conclude this work as a matter of priority.

36. Given the growing volume and number of trust funds and the increasing workload for the personnel working in this area, not only at headquarters, but also more and more at regional and country offices, the Inspectors are of the opinion that all the legal instruments and related rules and regulations concerning trust funds should be reviewed and consolidated into a more user-friendly and integrated format. This process should take into account latest developments as well as past amendments and revisions in the basic documents. The consolidated and updated applicable rules should be available and easily accessible by the staff of the organizations, at headquarters and in the field. Staff should be properly trained with regard to trust fund regulations, rules and policies.

37. In this respect, the Inspectors consider the UNESCO Administrative Manual, published November 2009, a comprehensive and transparent compilation of the rules and regulations in force.[11] The Administrative Manual, which is accessible online and has direct web links to different details, is an excellent working tool for all users at all duty stations, and can be considered a best practice among similar tools.

38. The implementation of the following recommendation is expected to enhance the effectiveness and efficiency of trust fund management and administration based on best practice.

[11] See Chapter 5 of the Manual, and the relevant Annexes.

Recommendation 4

The executive heads of the United Nations system organizations should review, consolidate and update existing legal instruments relating to the administration and management of trust funds in their organizations, and ensure that they are available to and accessible by all staff concerned in a user-friendly format.

B. Organization-donor relations

39. United Nations system organizations are paying increasing attention to their fund-raising and resource-mobilization activities and separate organizational units have been established to deal with this activity at headquarters. As fund-raising at the regional level increases, in the form of contributions by regional development institutions or regional development banks, and self-benefiting trust funds, the regional and country offices are also playing an important role in this regard. At the same time, certain donor countries are delegating fund-raising and trust fund negotiations to their representations in the region or country concerned.

40. The organizations are in regular contact with major donors, through their legislative bodies and/or donor meetings and other events, and serious efforts are made to establish and maintain long-term relationships and cooperation with donors. Special attention is paid to promoting multi-year programming with traditional donors through longer term partnership and framework agreements, but also to widening the circle of donor countries and extending the donor base by attracting new emerging donor countries and donors from the private sector. The Inspectors noted positive developments in both areas. Several organizations (for example, the United Nations and UNICEF) have attracted significant trust fund contributions from private donors. Other organizations (such as UNDP, WHO, FAO and UNFPA) are successfully increasing the share of contributions received through partnership agreements within the past three bienniums, thereby enabling multi-year programming.

Non-standard donor requirements

41. When negotiating trust fund agreements, the organizations try to use standard agreements and reporting formats developed on the basis of past practice. The organizations have concluded long-term framework or partnership agreements with some donors, and the establishment of new trust funds is done through a simple exchange of letters. However, in the majority of cases, individual negotiations must be conducted with donors requesting additional provisions, requirements and conditionalities. Most of the time, donors request specific earmarking, payment schedules, special programme support costs (PSC) rates, non-standard reporting requirements, additional clauses on fraud, corruption, terrorism, insurance, security or ownership rights, as well as specific audit and evaluation requirements. Less frequent are requests concerning specific procurement or recruitment modalities for programmes or projects financed from trust funds. Sometimes an organization may encounter different attitudes from the same donor country due to differences in internal regulations or practices in the different ministries or institutions in the donor countries.

42. In many cases, the donors accept the standard agreements after the negotiation process. However, when this is not the case, handling and accommodating the special requests often lead to lengthy negotiations and other processes, inter alia, because acceptance of certain provisions and non-standard requests requires internal consultation with and often the approval of the appropriate departments, such as legal affairs or the Controller. The large number of trust funds in the organizations results in a considerable workload for the staff involved, not only in concluding the agreement, but also throughout the trust fund management cycle. Furthermore, frequent donor requests to include non-standard clauses are hampering system-wide harmonization of efforts.

43. The Inspectors were informed that sometimes donors present specific requests outside the trust fund agreement process, which cause even more difficulties for the organizations than the requests presented within the formal negotiations. The Inspectors discourage the organizations from accepting such practices, as they may entail legal risks and liabilities and may not be fully compliant with the rules and regulations governing the organizations and, furthermore, they are not in line with the standards of transparency expected of the organizations.

44. While the Inspectors were provided with varying figures from different organizations, in general, following the negotiations, over 20 per cent of trust fund agreements concluded differ from the standard agreements and contain additional requirements, mainly on reporting modalities. **In order to increase the effectiveness of trust fund administration, the Inspectors discourage donors from including non-standard requirements in trust fund agreements.**

Regional development institutions

45. Negotiations on the establishment of trust funds financed by regional development institutions pose special difficulties. In general, regional development banks and other financial institutions have considerable funds, grants and loans which could be a source of funding for the activities of the United Nations system organizations through the trust fund modality. In particular, United Nations Regional Commissions as well as some of the larger regional offices of the specialized agencies would be interested in cooperating with them. However, some of the conditions currently offered by the regional development institutions, e.g. in Asia and Latin America, are not compatible with the provisions of the United Nations standard agreements, for example, certain limitations with regard to the procurement and recruitment process (region-restricted competitive bidding process limited to member countries of the regional financial institutions whereas the United Nations system has an open bidding process without geographical restrictions), as well as some financial and reporting requirements.

46. The Inspectors noted that the United Nations system organizations take different approaches in addressing those problems: some refer to and strictly apply their existing regulations and do not compromise by accepting additional conditions and requirements requested by donor institutions; while other organizations are more "flexible." Although they may not formally include any additional requirements or conditions in the relevant trust fund agreements, they in fact satisfy them (for example, procurement or recruitment modalities, such as region-restricted competitive bidding processes) in the implementation of the activities financed by the regional financial institutions and development banks. There is also an example for the practice when a non standard project financing agreement, that was an appendix to the UNDP - Inter American Development Bank (ADB) framework agreement, was signed between those two entities.

47. The Inspectors are of the opinion that it is highly desirable for the United Nations system organizations to adopt a unified and common position on the conditions under which resources could be accepted from regional financial institutions and development banks. Such common position should be sufficiently customized to the regional conditions to enable the regional commissions or offices to accept/receive additional resources for activities in line with their mandates and priorities and compatible with their rules and regulations. It is also a legitimate expectation that the United Nations system organizations should not undermine each others' possibilities in the competition for those resources.

48. The implementation of the following recommendation is expected to enhance coherence with respect to cooperation between the United Nations system organizations and regional financial institutions and development banks.

Recommendation 5

The Secretary-General, in his capacity as Chairman of the CEB, should develop a common position regarding the conditions and modalities for accepting and receiving resources for trust funds from regional financial institutions and development banks. Once such a common position has been developed, the rules, regulations and policies of the organizations should be updated and submitted to the respective legislative bodies for approval.

C. Governance structure of trust funds

49. In general, the governance structure of trust funds is governed by the applicable legislative framework of the organizations. It can be also regulated in the legislative bodies' decision or in documents approved by the executive heads on the establishment of the trust funds and more often in trust fund agreements concluded with donors. These documents set out the governance structure of the trust funds, including the establishment, composition, role and mandate of steering committees and/or trust fund secretariats. Trust fund steering committees are usually composed of donor and organization representatives, as well as other stakeholders, for instance, representatives of the countries concerned, in the case of country-level trust funds. The steering committee role varies, but in most cases, it has a decision-making role, as well as an advisory and oversight role on the activities of the fund. Trust funds agreements may also contain provisions on what level and on what questions and issues a consultation mechanism should operate between the donors and the organization.

50. Given the different types of trust funds, their size, focus activities, whether they operate at the global, regional or country level, there are many variations in the governance structures of the trust funds within a same organization, as well as among the different United Nations system organizations. In general, administration and management of project-based trust funds are integrated into the organization's usual project/programme approval and implementation processes and procedures involving different departments (technical, accounting, finance, legal, oversight, etc.). However, thematic funds, trust funds with bigger volumes, MDTFs, such as Central Emergency Response Fund (CERF), United Nations Peacebuilding Fund (PBF) and the United Nations Trust Fund for Human Security (UNTFHS), and country-level trust funds usually have a specifically established governance

structure, including a steering or advisory committee or board of trustees and a secretariat with human resources specifically dedicated to supporting the proper operation of the activity financed by the fund.

51. The Inspectors were informed that overall there are no major systemic problems related to the governance of trust funds. However, in some cases, the decision-making process, including within the trust fund committees, is not always clear and effective, which also has an impact on accountability and transparency. This corresponds to observations made during some of the evaluations and audits of specific trust funds. With regard to MDTFs, it was further indicated that too many United Nations system organizations were involved as participating organizations in country-level trust funds, which tends to hampers decision-making and the efficient and effective administration and management of the funds. Finally, the importance that the countries concerned be adequately represented in the steering committees of country-level trust funds was stressed.

52. The Inspectors agree with those observations. However, they abstain from making specific recommendations, since in general, there are no major systemic problems related to trust fund governance. The issues raised are operational in nature and they have already been identified, reviewed and taken up by the organizations concerned, as such no system-wide measures are needed. With respect to governance of MDTFs, please see paragraphs 106-114 below.

V. ADMINISTRATIVE AND FINANCIAL ISSUES

A. Cost recovery

53. Cost recovery policies and principles related to activities financed from extrabudgetary resources, including trust funds, have been a longstanding and much debated issue in the United Nations system organizations. The JIU report on support costs,[12] issued in 2002, contained an extensive review of the support costs related to activities financed by extrabudgetary resources and encouraged the United Nations system organizations to review the formulation and application of their support costs policies. Given the steadily growing volume of extrabudgetary resources in their overall budgets, most United Nations system organizations have started to apply a full cost recovery policy, as endorsed by their legislative bodies, in order to enable recovery of all the administrative and support costs related to activities financed by extrabudgetary resources. In some organizations, periodical reports on the implementation of the policy must be submitted to the legislative bodies.

54. Programme support cost (PSC) recovery differs from one organization to the other in certain aspects, in particular, United Nations system organizations apply different PSC rates. The United Nations Secretariat and the specialized agencies apply a standard PSC rate of 13 per cent, while the United Nations funds and programmes, for example, UNDP, UNICEF and UNFPA, usually apply a lower common cost recovery rate of 7 per cent[13] to cover fixed and variable indirect costs on activities funded by extrabudgetary resources. Deviation and exception from the standard rate for certain types of activities exist in all the organizations or may be approved by the executive head and/or the Controller of the relevant organization in certain cases, for example, for emergency programmes, programmes with a high level of procurement, among others.

[12] JIU report, "Support costs related to extrabudgetary activities in organizations of the United Nations system" (JIU/REP/2002/3).

[13] The Executive Committee (ExCom) agencies have made efforts to harmonize their PSC rate at 7 per cent (see CEB/2006/HLCM/20).

55. The PSC rates applied for trust-fund-financed activities vary from organization to organization. The standard PSC rates applicable in general by an organization also apply to trust funds and activities financed by them.[14] Most organizations also have specific (lower) rates for certain types or categories of trust funds and/or activities, for example, emergency-related trust funds, self-benefiting trust funds, trust funds with a high portion of procurement, etc.[15] Waivers and exceptions may be granted by the executive head or Controller of the organization upon request and under certain circumstances, for example, if there is need to split the total PSC among different organizations when using implementing agencies. Due to the number of exceptions granted, the overall PSC rates applied to trust funds and trust-fund-financed activities are lower, in practice, than the applied standard PSC rate.

56. The Inspectors were informed that the cost recovery issues related to trust funds and activities funded by them, such as applicable PSC rates, modalities and procedures for setting PSC rates that deviate from an organization's standard rate, cost categories and direct cost charging, are under discussion within the context of the ongoing general inter-agency debate on cost recovery for extrabudgetary activities.[16] The internal distribution of PSC between headquarters and field offices, as well as distribution among central administrative and technical units of the organizations are also under discussion. Although the discussions are considered very useful in clarifying various elements of cost recovery policy, increasing cost sensitivity and promoting a cost accounting culture, they have only led to some limited outcomes.

57. The cost recovery issues related to trust funds, and the other extrabudgetary funded programmes, are of great importance and need agreement for several reasons. In several organizations, the current PSC rates are not enough to cover all actual costs (it is estimated that the volume of fixed and variable indirect costs, in most of the cases, is approximately double the highest PSC rate applied); as a result, in some cases, there is cross-subsidizing from the regular budget. In an attempt to address this issue, organizations have started to charge support costs directly to the programmes and project concerned. However, this practice has been criticized by some organizations as not being fully transparent due, in part, to the different cost categories and accounting structures of the various organizations. It was also felt that charging support costs directly to the programmes and projects would significantly increase their costs, as well as the accounting and financial management workload, and hence overall administrative and transaction costs. Charging support cost directly would benefit organizations with an overall high percentage of voluntary contributions, given their often more flexible legislative frameworks.

58. It was also noted that the current situation would further increase competition for funds among United Nations system organizations, since they could attempt to underbid each other with lower PSC rates. Finally, it was also indicated that the steadily growing ratio of extrabudgetary resources compared to regular budget resources, together with the fact that the current PSC rate often does not cover all actual costs, could lead to a situation where at some point the organizations would no longer be able to provide the outcomes and results expected by donors, which in turn would negatively impact on their credibility and image.

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[14] See also Annex III herein, which contains the PSC rates applied to trust funds in selected United Nations system organizations.

[15] See UNESCO, FAO and ICAO, for example.

[16] See, for example, discussion and work of the HLCM Working Group on Support Costs for Extra-budgetary Activities and the UNDG-HLCM Working Group on Cost Recovery Policy, including its Task Force on Cost Classification (which conducted a survey in 2007 on cost recovery policies in the UN system).

59. Furthermore, given the current practice by the European Union (EU), the World Bank, as well as MDTFs, which all apply a PSC rate of 7 per cent and which have increasingly provided funding for trust funds in the past years, there is pressure and a trend towards the lower 7 per cent PSC rate over recent years, which is starting to become a system-wide common practice. As a spill-over effect of this tendency, donors more and more often question the application of the 13 per cent PSC rate, and insist on the 7 per cent rate also for their bilateral trust funds. However, at the same time, some donors would also be ready to enlarge the scope of costs charged directly to the programme/projects. The Inspectors were informed that in some cases the same donors have different attitudes in different organizations.

60. The Inspectors are of the opinion that, from a marketing point of view, the 7 per cent PSC rate is more attractive to donors, although the different levels of direct charges may make it difficult to compare the real overall costs for trust fund administration and management. However, such a practice would create conditions for unhealthy competition for funds and could push organizations with less complex cost accounting systems in a direction where the cross-subsidization between regular and extra-budgetary resources aggravates.

61. The Inspectors noted that there are, in general, two different schools of thought on these issues, motivated by the difference in business models between ExCom funds and programmes and the specialized agencies:

a) One opinion considers that wide application of direct charging is less transparent (even with a lower fixed PSC per-cent rate) as it leaves room for charging of "hidden" indirect costs under different budget lines. It also requires the introduction of expensive cost accounting systems, which would increase overall transaction costs. In addition, organizations where the knowledge and expertise base are in-house and financed from the regular budget component (as is the case in most of the organizations with heavy normative and technical types of activities, such as the specialized agencies) would have difficulties charging part of the personnel costs as direct costs to specific programmes/projects. This is the rationale behind the strong defence of the fixed 13 per cent PSC rate in the United Nations Secretariat and the specialized agencies.
b) The other school favours a wider application of direct charging with a lower standard PSC per-cent rate, because they already have the accounting systems in place as well as experience in direct charging. Furthermore, due to their mainly operational activities and limited regular budget resources, they are not relying to the same extent on in-house expertise, but could also outsource some of their activities to external consultants, which is easy to charge directly to the respective programmes. Consequently, they could work easily with the lower 7 per cent PSC rate.

62. The Inspectors are of the opinion that the special considerations accorded, the attraction of lower PSC rates, and the lack of comparability of actual total direct and indirect costs may push the United Nations and the specialized agencies into a funding competition with other United Nations system organizations. Furthermore, if they continue to apply lower PSC rates, **the organizations could come out at the losing end, in particular if they take on a burden that cannot be financed in the long term from the regular resources**, given the ever increasing volume of trust funds.

63. With the general trend towards the 7 per cent PSC rate for trust funds, a significant amount of new trust funds are being offered to the United Nations and the specialized agencies, with the 7 per cent rate as the main condition. Therefore, it is **in the vital interest of the organizations to have clear common**

rules on the costs to be financed, the PSC rate to be applied, and the types of costs to be charged directly to the programmes/projects. This would enhance transparency and clarity in cost accounting with respect to PSC.

64. So far, attempts to arrive at a common position on those issues have not been conclusive, although, useful work has been done and progress achieved since 2003, in particular at the CEB level by the UNDG-HLCM Working Group on cost recovery policy, and by the Task Force of Specialized Agencies. At present, several organizations, including the United Nations Secretariat, are in the process of reviewing their cost recovery policies and rates.

65. The Inspectors are of the view that these technical, financial and accounting issues can be agreed upon, provided that there is a political desire at the level of the executive heads, with the support of the Member States. The Inspectors feel that further postponement of such important decisions on the harmonization of cost recovery policies and principles will lead to aggravation of unfair competition for funding among the United Nations system organizations, and will deepen the lack of transparency as well as comparability of actual support and administrative costs related to trust fund administration and management. Such a situation would not be in the interests of the organizations nor the Member States at large. Transparent cost recovery rules would also be in donors' interest and would facilitate their decision-making about financing programmes and projects in the United Nations system organizations.

66. The implementation of the following recommendations is expected to enhance system-wide coherence with respect to PSC policies and principles for trust funds, as well as activities financed by other extrabudgetary resources.

Recommendation 6

The Secretary-General, in his capacity as Chairman of the CEB, should revitalized the inter-agency work with a view to come to an agreement among the United Nations system organizations on the harmonization of cost recovery policies and principles for trust funds, as well as activities financed by other extrabudgetary resources. Such cost recovery policy should include an unambiguous rule on the programme support cost (PSC) rate and the categories of costs to be charged directly to the programmes.

Recommendation 7

The legislative bodies of the United Nations system organizations should review the harmonized cost recovery policies and principles for trust funds and activities financed by other extrabudgetary resources, once they have been agreed within the CEB, with a view to updating the cost recovery policies of their organizations accordingly.

B. Reporting on trust funds

67. United Nations system organizations try as much as possible to use their standard trust fund agreements which contain standardized reporting modalities for trust funds and the activities financed by them. Such reporting normally includes submission of annual financial and substantial/narrative reports that provide an update on the implementation status of the programmes and projects financed by the trust fund, and a final financial and substantial/programmatic report on the closing of the trust fund or the end of the programme/project financed by it. The United Nations system organizations generally fulfil the standard reporting obligations, although they sometimes have difficulties complying with the time frames set by donors.

68. Difficulties with respect to reporting arise when there is a high number of trust funds and/or programmes/projects, each one requiring individual reporting, or when donors request additional reporting requirements or modalities.

69. The Inspectors were informed that reporting on trust funds and trust-fund-financed activities is a significant administrative burden for the organizations, even with the broadly applied standardized reporting and reporting formats, due to the high number of project-related trust funds in many organizations. In the smaller organizations, several hundreds of reports are prepared for donors annually, while in the larger organizations, reports run into the thousands annually (ILO: about 2,600, FAO and WHO: close to 2,700 and 5,000 respectively). In this regard, the Inspectors are of the view that the wider use of thematic trust funds, which generally use aggregate reporting, rather than individual donor reporting, would considerably ease the administrative burden placed on the organizations. Obviously, that would require higher donor confidence in the organization, which could also be achieved through more transparent management of resources, with general reporting on trust-fund-financed activities to the legislative bodies of the organizations. The Inspectors believe that the positive experiences in thematic trust fund management, at the United Nations, UNFPA and UNICEF, for example, prove that it is a viable option, although some organizations have indicated that their expectations of development in that direction are rather modest, given the different donor attitudes in that respect.

70. The non-standard reporting requirements requested by donors usually include requests related to the timing, frequency and periodicity of financial report(s), including requests for interim financial reports, a customized budgetary breakdown of expenditures or budget lines, or reporting in a currency different from that used by the organization for financial operations. Such requests are not only made by donor countries, but by all types of donors, including private donors and United Nations system organizations funding activities in other United Nations organizations. In the latter case, several

organizations have indicated that reporting to UNDP is especially labour intensive, due to the different budget lines applied. Another difficulty faced by the organizations is that more and more donors require not only expenditure-related, but also more frequent activity- or results-based reporting. Since the current accounting and financial systems in most of the organizations cannot provide the required data and information automatically, manual interventions are required which increases workload and costs. Organizations that have already implemented and are using enterprise resource planning (ERP) systems can more easily cope with such additional reporting obligations and requests.

71. The fulfilment of reporting obligations to donors involves continuous work in the accounting and financial units, as well as in the substantive units that deal with project implementation. This is particularly the case as the volume of trust funds and/or the number of projects financed by those sources have been increasing significantly, or when donors make additional reporting requests. Therefore, **the Inspectors encourage donors to reduce their additional reporting requirements and to rely on a wider scale on consolidated reporting on trust fund activities.** This would also facilitate more harmonized reporting across the United Nations system. The Inspectors were also informed that during the conclusion phase of the agreements, sufficient attention was not always paid to the workload that would result from additional reporting requirements. Further, in some organizations the internal procedures regulating the conclusions on trust funds agreement with the donor does not contain consultation or clearing mechanisms with the units responsible for the implementation of reporting, and therefore the fundraisers do not pay sufficient attention to the burden caused by accepting non-standard reporting requirements.

72. **The Inspectors are of the view that, in order to ensure adequate reporting on and monitoring of trust funds and the activities financed by them, already at the stage of negotiating trust fund agreements with donors, attention should be paid that sufficient resources and staffing are provided for those tasks. The concluded trust fund agreements should also contain provisions in this regard.** This is especially important in order to guarantee adequate transparency with respect to trust fund activities and donor resources. In addition, organizations should ensure that in the future, their ERP systems have the capability to provide the necessary information and data for financial reporting on trust funds and trust-fund-financed activities.

73. The implementation of the following recommendation is expected to enhance the effectiveness, efficiency and transparency of trust fund management and administration.

Recommendation 8

The executive heads of the United Nations system organizations should ensure that their current and future ERP systems can provide the required financial data for managing, monitoring and reporting on trust funds and trust-fund-financed activities.

C. Operational reserve

74. At the United Nations, provisions on trust fund management[17] stipulate the application of a 15 per cent operational reserve in order to ensure sound financial management of trust funds. While no such reserve is institutionalized in other United Nations system organizations, prudent financial management is ensured through careful project planning, monitoring and resource disbursement, including strict provisions that trust-fund-financed activities can only commence when the funds have been received or through the application of a 5 to 7 per cent annual price increase clause for programmes/projects with a longer implementation phase, for example, those in ILO and UNESCO.

75. The Inspectors were informed that such a high operational reserve is not attractive to donors. From the perspective of the organization, it also reduces flexibility in terms of programme/project management, as fewer resources are available for programming or only at a late stage through reprogramming. Although the United Nations, as well as some other organizations which do not have a fixed operational reserve, noted that such a reserve is required to cover any shortfalls, for instance, in the case of unplanned and unforeseen events and results, in this case it would contribute to minimizing the financial risks. Some officials interviewed suggested that prudent financial management could also be achieved with a smaller operational reserve, especially with regard to trust funds with a bigger volume of funding and/or a short duration. It was proposed that instead of having a fairly high reserve applicable to all trust funds without distinction, it would be preferable to **have more flexible provisions allowing for varying operational reserves for the different trust funds, based on a risk assessment that takes into account various factors, such as fund volume, duration, type of activity, among others**.

76. The Inspectors were informed that the United Nations Controller's Office is currently working on a review of existing trust fund policies. The operational reserve, PSC rate and the possibility of reducing the number of trust funds, among others, are also under review. At the time of this JIU review, the in-house review process at the United Nations Secretariat was still ongoing and no further details were available. The Inspectors are of the opinion that a review and update of the legal instruments on trust funds management, as proposed in Recommendation 2, should be carried out as a matter of priority, and the issue of the operational reserve should be addressed within this framework.

D. Interest income on trust funds

77. Temporarily non-disbursed financial resources of trust funds are pooled together at the organizational level and invested in conformity with the general investment policy of the organization as governed by the financial regulations and rules. The interest earned on those investments is generally apportioned semi-annually to the individual trust funds based on the average month-end cash balances for each fund. The total amount of interest earned, and the share for the individual trust funds, depend on the interest rate in effect and can be quite significant, in particular in the case of bigger trust funds.

78. Use of such interest income is regulated by the financial regulations of the organizations and the respective donor/trust fund agreements. The situation may vary from organization to organization. Generally, interest income is disbursed into the trust funds, however, some donors, due in part to their domestic legislation, request that the interest be transferred back to them. Some organizations use all

[17] See Administrative Instructions ST/AI/284 on general trust funds, ST/AI/285 on technical co-operation trust funds, and ST/AI/286 on programme support accounts.

the interest income (for example, UNICEF) or a part of the interest income earned (for example, UNESCO) as contribution to the organization's general budget support account, while others disburse it in full to the trust funds, unless otherwise stipulated in the donor agreement.

79. The Inspectors are of the opinion that **it would be desirable to have a common business practice within the United Nations system on the use of the interest income from trust funds, so as to strengthen their position vis-à-vis donors when negotiating the use of the interest income.** In addition, in the case of multi-donor trust funds (MDTF), a common position would contribute to more coherent system-wide reporting on such income.

E. Delegation of authority

80. The administration and management of trust funds require close coordination and cooperation among the different units at headquarters and in the regional and country offices. While in the past, most of the work was centralised at headquarters, there has been a general trend among United Nations system organizations in recent years to decentralize some trust-fund related activities, fully or partially, to the regional and country levels. This concerns not only implementation, monitoring and evaluation activities related to trust funds, but also the early phases of the trust fund management cycle, such as fund raising and the related donor negotiations.

81. This corresponds with the trend among certain donors to delegate the negotiations on trust fund agreements to their embassies or representations at the regional or country level, as well as with the increased availability of funding at the regional and country levels, for example, by regional financial institutions and development banks, MDTFs and donor countries providing funding for programmes/projects in their countries and regions (self-benefiting trust funds). Overall, a significant increase in the number and volume of country-level trust funds has been observed in the past years.

82. United Nations system organizations with strong country office networks, such as UNDP, FAO, WHO and ILO, can cope with and manage the increased trust-fund-related workload at the country level with less problems. In general, these organizations have delegated authority up to a certain threshold of trust fund management, although the Inspectors were informed that sometimes the staff in the field need to be better trained in trust fund administration. For the other organizations, participation in and the implementation of trust-fund-financed activities pose serious problems in terms of ensuring adequate capacities and well-trained staff at the country level.

83. Furthermore, some organizations, such as the United Nations, still have very centralized decision-making processes and procedures for trust funds with little delegation of authority to the regional or country offices. Their practice is typically based on the classical model that the major work should be done at headquarters. However, given the evolving situation and donor environment, those structures often slow down the negotiations as well as the conclusion of the trust fund agreements and their implementation (for example, project formulation). The most frequently mentioned problems were the slow response of the organizations' legal services, and the time frame for obtaining reaction from the Controller's Office in order to process donor requests related to PSC. It is not unusual for donors to offer funds very close to the end of their financial year. This gives the organizations very short notice, and if the organizations do not react quickly, they may risk losing the funds offered.

84. Delegation of authority regarding trust funds management at the United Nations Secretariat is provided for in the relevant administrative instructions, but in fact, such delegation is very rare, and mainly covers technical co-operation trust funds. Instead of delegating authority on a wide scale, the Controller's Office prefers to use waivers or case-by-case decisions. Such practice is time-consuming and not only does it create delays and practical difficulties, but also sometimes reputational damage, if donor requests and offers cannot be accommodated efficiently and in a timely manner.

85. The Inspectors are of the opinion that the United Nations system organizations should adapt their work methods to the evolving situation and donor environment, and acknowledge and provide for the increased workload and the implementation of trust-fund-financed activities at the regional and, in particular, the country levels. They should review existing policies regarding delegation of authority for trust fund management with a view to delegating adequate authority to the regional and country offices, so as to cope with the new and changing circumstances. The organizations should ensure that their regional and country offices have adequate capacities and well-trained staff to ensure trust fund management and administration at those levels.

86. The implementation of the following recommendations is expected to enhance accountability, effectiveness and efficiency of trust fund management and administration.

Recommendation 9

The executive heads of the United Nations system organizations should review and update the provisions for delegation of authority with regard to trust fund management with a view to adjusting to the changing and increasing role of the regional and country offices.

Recommendation 10

The executive heads of the United Nations system organizations should ensure that training programmes for field staff include adequate training on trust fund administration and management.

F. Introduction of IPSAS

87. The United Nations system organizations are at various stages of the transition to the International Public Sector Accounting Standards (IPSAS).[18] Therefore their experiences with IPSAS, including the changes and implications on trust funds administration and management, vary. The CEB tasked the HLCM Task Force on Accounting Standards with supporting United Nations system organizations in their harmonized interpretations and application of accounting policies and practices to achieve compliance with the requirements of IPSAS, including issues related to fund accounting with their possible effects on trust fund management.

[18] See also JIU report, "Preparedness of United Nations Organizations for the International Public Sector Accounting Standards (IPSAS)" (JIU/REP/2010/6).

88. The Inspectors were informed that requirements from different IPSAS would affect the trust fund accounting. This may require some changes in the present practice of trust fund administration but in general IPSAS will provide a more accurate and transparent information for their management:

- IPSAS standards are silent on fund accounting. Therefore, the organizations, contrary to the requirements of UNSAS, are allowed to show information about sources and nature of funds in different ways.

- IPSAS 23 (Revenue of Non-exchange Transaction) relates revenue recognition to asset recognition. The accrual accounting stipulates that revenue be recorded in the financial periods in which it is earned and expenses in the periods when the goods and services are delivered. Therefore the revenue from a trust fund may be recorded prior to the receipt of cash and recognized as revenue upon the conclusion of the binding contract with the donor.

- IPSAS 4 (The Effects of Changes in Foreign Exchange Rates) has requirements related to the function (base) currency of the respective organization and the application of exchange rates.

89. The revenue recognition from non exchange transactions including revenue under trust funds was one of the most difficult aspects of the work of the Task Force. The system-wide team provided guidance for the United Nations system organizations to support their harmonized interpretation and application of IPSAS. The guidance was discussed and accepted as useful for the United Nations system organizations. This guidance will have to be interpreted within the specific arrangements of the organizations concerned including the definition of trust funds in each entity. IPSAS does not address requirements of donor reporting, which is an internal matter of the organizations. However, IPSAS 23 implementation will result in financial statements based on accrual basis while most probably some reporting to donors will continue on the traditional "modified cash" basis, and hence the organizations' information systems have to be able to retrieve reports under both approaches for the same transactions.

G. Closing of trust funds

90. The closing of the trust fund is the final phase of trust fund management. It is governed by the organizations' financial regulations, other legislative instruments applicable to trust funds, as well as the relevant trust fund agreement concluded with the donor. Normally, once all the transactions related to the trust-fund-financed activities have been completed, a final financial and substantive report is submitted to the donor and any unspent balances are used as directed by the donor in the trust fund agreement or through additional subsequent donor requests.

91. The Inspectors noted in most of the organizations that the number of inactive funds was relatively high, especially in the case of project-related trust funds, and closure of the funds is completed after a long period, without any transactions on the related accounts. Trust funds are often still open over two years after the last transactions have taken place. To a certain extent, this could be considered prudent financial management, but more often than not, it is indicative of a lack of proper monitoring. The high number of inactive and unclosed trust funds poses an unnecessary burden, in terms of additional accounting and reporting, for the organizations. This observation was also confirmed by various internal and external audits and reviews of trust funds managed by the organizations.

92. The Inspectors are of the view that **in line with the respective internal and external audits and reviews, the organizations should close inactive trust funds, in order to avoid additional work and costs for accounting, administration and reporting.** In that respect, there is a need to further improve the monitoring of trust funds and the activities financed by them and, in general, adopt a more proactive approach in this regard. A timely response from the donors concerning the organizations' requests with respect to the closure of inactive trust funds is also needed to remedy the situation.

H. Auditing of trust funds

93. The trust fund agreements concluded with donors stipulate that the financial resources offered by the donors will be managed and audited exclusively according to the financial regulations and rules of the given organization. The financial regulations and rules in effect in all United Nations system organizations stipulate that trust fund activities and programme/project implementation are subject to audits conducted by the internal audit service and the external auditors of the organization (single audit principle).[19]

94. Despite clear provisions in the organizations' financial regulations and rules, many organizations indicated to the Inspectors that the single audit principle was challenged frequently by donors during the negotiation process. Some donors repeatedly ask to perform their own audits or request that additional, separate audits to be carried out by the organizations' external auditors.

95. The organizations have systematically refused these requests and the single audit principle is generally respected. This firm position has been an obstacle to the conclusion of a trust fund agreement in only a few cases; usually, the donors finally accept and respect the single audit principle. In some instances, compromises are made and donors limit themselves to only requesting some additional information, or the organization would agree to a special audit of the trust fund and its activities by the external auditors on a cost reimbursement basis. Often donors accept the organization's assurances for close, continuous and detailed consultations with trust fund management on the activities, complemented by additional information and data through stricter reporting modalities. Some organizations also make the trust funds' audit reports available to donors, which enhanced donor responsiveness to accept the single audit principle.

96. A special situation emerges in all organizations regarding the activities and projects financed through trust funds by the EU, where the standard internal and external audit coverage of the organizations may be complemented with the EU verification mission under the FAFA agreement. The Inspectors were informed that the initial problems which existed prior to the conclusion of the United Nations-EU FAFA agreement have been resolved, although some operational difficulties are still present. Since the conclusion of this agreement, there has been a process in place, through the high level consultations between the United Nations and the EU from the FAFA working group, to address those problems including issues related to the EU verification missions.

97. As required under international internal audit standards, the organizations' internal audit function should ensure, through effective risk-based audit planning, that the various risks are properly considered when developing the internal audit coverage. The internal audit function does not make a distinction as to whether an activity is financed from trust funds or other resources, but rather reviews a programme/project in all its aspects. There were no indications to the Inspectors that the trust funds and

[19] See JIU report, "The Audit Function in the United Nations System" (JIU/REP/2010/5), chapter III, for more details.

the activities financed by them were less audited than any other activity financed from other types of financial resources. The Inspectors noted that, while different aspects of trust-fund-financed activities, programmes and projects were subject to internal audits, audits focusing specifically on trust funds and their activities are very rare in the specialized agencies. In a few cases, special audits have been carried out on the activities of some big thematic trust funds (for example, at the United Nations Secretariat and OHCHR) or have focused specifically on other activities financed by extrabudgetary resources (UNESCO) that may have been identified as high-risk areas.

98. Those audits addressed some very pertinent and important issues, such as resource mobilization among different categories of donors, fragmentation of trust funds, the need to improve the provisions in donor agreements, cost recovery issues, among others, and served to improved trust fund operations and management in those organizations, including their effectiveness and efficiency. Taking into account the overall high and increasing volume of trust funds across the United Nations system, and the various risks related to their administration and management, the Inspectors are of the opinion that trust funds and the activities financed by them should be attributed a profile commensurate to their risk levels in the internal audit plans of the United Nations system organizations, and adequate resources should be allocated thereto accordingly.

99. The implementation of the following recommendations is expected to enhance the effectiveness and efficiency of trust fund management and administration, and to increase their audit coverage.

Recommendation 11

When preparing their internal audit plan, the heads of internal audit in the United Nations system organizations should ensure that appropriate attention is given to the risks directly related to the operation and management of trust funds, including, but not limited to, large trust funds.

I. Evaluation of trust funds

100. Most of the United Nations system organizations ensure that trust-fund-financed programmes and projects are evaluated at the end of their implementation. Such evaluations are mostly programmatic evaluations that focus on the achieved outcomes and results of the programmes and projects, but they also often include financial data and information. The donors are the major driving force for this practice, since they are accountable to their national constituencies for providing credible assurances that the resources allocated to the United Nations system organizations are used effectively and in line with the agreed expected outcomes. The evaluation requirement is a standard element of trust fund agreements in the great majority of organizations. It is mandatory for trust fund agreements concluded with the EU or international financial institutions.

101. The costs associated with the evaluations are handled as a direct cost of the trust-fund-financed programmes and projects, and are usually included in the respective programme/project budget. In some organizations (for example, UNESCO and ILO), the relevant provisions on trust funds stipulate that evaluations are mandatory for programmes/projects exceeding a certain volume (for example, US $100,000 at UNESCO), while in others, they are conducted as agreed upon with the donors or in line

with the standard evaluation requirements in force in the given organization. The Inspectors were impressed with the list of evaluations of trust-fund-financed programmes and projects in most of the organizations. They noted that the general increase of the evaluation culture in the United Nations system as a common practice has a positive impact on the evaluation coverage of trust-fund-financed activities.

102. The evaluations are carried out by external consultants or the evaluation unit of the respective organization. In most cases, donor/trust fund agreements also contain an evaluation clause which provides for the participation of donor representatives in the evaluation process, under certain conditions.

103. The JIU review did not make any judgments on the quality of the evaluation reports and the recommendations contained therein. However, the Inspectors would like **to urge the management of the organizations to address and incorporate the lessons learned throughout the evaluations into the administration and management of trust funds within the organizations.**

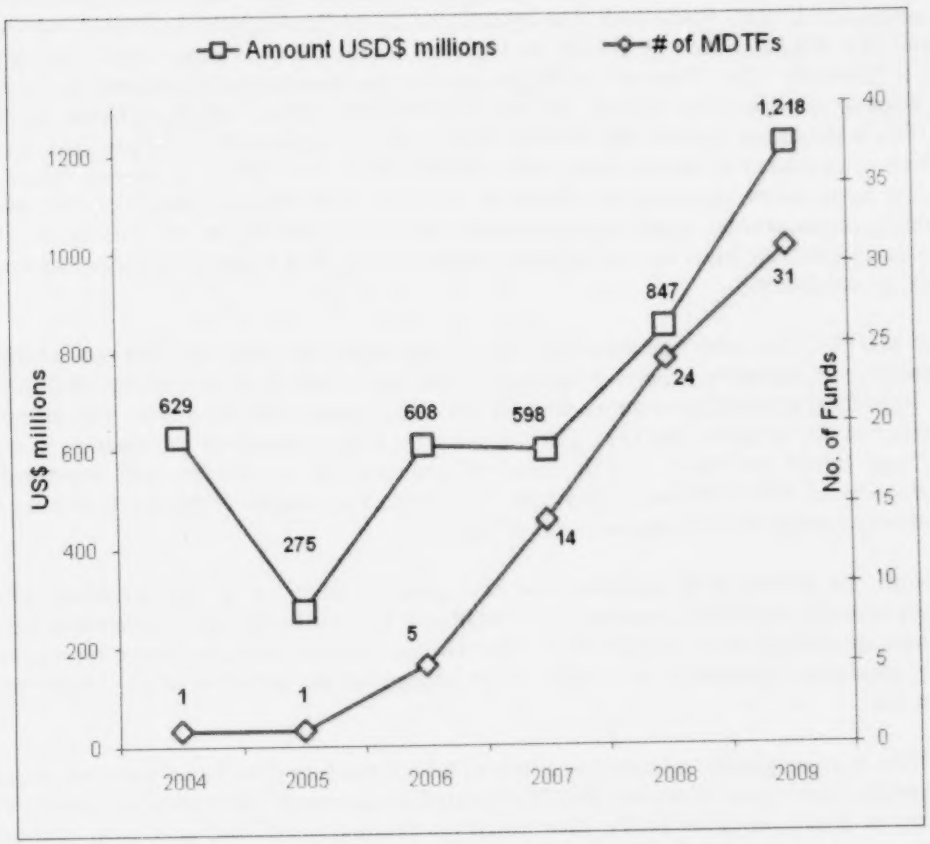
VI. MULTI-DONOR TRUST FUNDS

104. Multi-Donor Trust Funds (MDTFs), including the One Funds, are a special modality for channelling donor contributions through a pooled mechanism for thematic or country-specific programmes of strategic importance. The objective of MDTFs is to provide more flexible, predictable and coordinated funding to support development activities, the implementation of the Millennium Development Goals (MDGs), as well as harmonized activities of United Nations organizations in humanitarian and post-conflict or transition situations. This modality is also expected to facilitate programmatic coordination, and reduce the administrative and transaction costs of trust fund management. MDTFs and the One UN Funds at the country level enable the beneficiary countries to actively participate in the funds through their membership in the respective steering committees. While most donors support this modality of pooling resources because of the lower fund administration costs, some do not find them sufficiently attractive due to the lack of possibility for strong earmarking or receiving individual reports on the utilization of the donated resources.

105. The number and the volume of MDTF funding have been increasing significantly over the past years. At the end of 2009, the total cumulative commitment by over 50 donors stood at around US$4.5 billion. The initial set-up size of the funds vary from 0.5 million USD to several hundreds of million USD. It is expected that the concept of delivering as one, as well as the widening practice of country programming will continue to enlarge donor interest in MDTFs, and further fund growth is anticipated in the coming years. Most United Nations system organizations participate in one or several MDTFs. There has been a growing scope of areas and activities financed by MDTFs over the last years. Some of the funds are global in character and finance activities in several countries, but the majority of MDTFs provide resources for activities in one specific country.[20]

[20] See Annex IV for a table indicating donor contributions (commitments) to UNDP-administered MDTFs by organization and MDTF, as of 31 December 2009; see also www.undp.org/mdtf.

Graph: Annual donor contributions through UNDP MDTF Office as of 31 December 2009



Source: Background Note for the UNDG-Donor Meeting on Multi-Donor Trust Funds held on 21 January 2010.

Institutional framework and governance

106. Over the past years, the United Nations Development Group (UNDG) has developed a series of standard legal instruments and documents which constitutes a common legislative framework for the operation and administration of MDTFs among the United Nations system organizations. The legal documents include, among others, the Guidance Note for the establishment of MDTFs, the Memorandum of Understanding (MOU) to be signed between the Participating United Nations Organizations and the Administrative Agent (AA), and standard administrative agreements to be signed by the AA and individual donors.[21]

[21] For further information, see http://www.undg.org and http://mdtf.undp.org/.

107. In parallel, the institutional framework, including the MDTF Office and the oversight mechanism (Fiduciary Management Oversight Group, ASG Group of participating organizations), has also been established to manage and coordinate the operations of the MDTFs. The MDTF Office, which functions as AA within the UNDG framework, but operates as a self-financed service centre, administers 31 out of 32 MDTFs. Although part of UNDP, it is strictly separated from other UNDP business operations through a "firewall." The "firewall" principle ensures the separation of functions between UNDP, as a United Nations implementing agency, and the UNDP/MDTF Office, which performs the role of AA for the MDTFs in the entire system. The MDTF Office costs are covered by the 1 per cent AA management fee (which is deducted at source from each contribution). The Office is, among others, involved in negotiating agreements, receiving the financial resources from donors, disbursing the resources to the participating organizations, preparing the annual and final reports on the MDTFs for the donors, based on the reports received from the participating organizations, and organizing donor meetings on MDTF activities, as necessary.

108. The MDTF Office also operates Gateway, a web-based reporting platform that provides access to the financial and narrative reports prepared by the participating organizations, and often generated directly from their accounting systems, thereby providing donors and the public with information on the performance of the different MDTFs. Gateway contains a large source of information in a user-friendly manner, and hence provides a high level of transparency to donors and beneficiaries on the implementation of MDTF-financed projects. The project managers of the participating organization have generally expressed their appreciation of Gateway.

109. Overall, the participating organizations gave positive feedback on the operations of the MTDFs. Some organizations expressed concern that UNDP and ExCom funds and programmes have received a bigger share of funding from MDTFs than other United Nations agencies. Some issues concerning the work and regulatory framework of MDTFs were brought to the attention of the Inspectors for further consideration.

110. MDTFs were originally intended as a tool to bridge funding gaps based on needs assessments and the availability of funding. However, MDTF-financed programmes have often been more driven by the availability of donor-provided funds, than based on national needs and priorities. Additionally, some United Nations system organizations expressed concern that the availability of MDTF resources could also be used to "encroach" on the core activities of some United Nations organizations.

111. There is an ongoing discussion among the participating organizations as to whether the 1 per cent management fee for the AA's services is adequate or excessive. Taking into account the long duration of the MDTFs, the continuous periodic reporting obligations, various additional services, such as Gateway, as well as the need to also manage small MDTFs, the established rate may be justified. Furthermore, even those organizations critical of the established AA management fee, were not eager to take on the AA responsibilities. The Inspectors were informed that the MDTF Office plans to prepare a review of the current use of the 1 per cent AA management fee, which may result in a rate change or change in the way that the AA fee is charged. The possibility of applying a minimum threshold fee for the MDTFs or a set-up fee, as is done, for example, at the World Bank, should be examined, although considerations other than the purely financial arguments, such as the political benefit of small funds for certain countries or areas, should be taken into account.

112. From an operational point of view, repeated criticism was expressed about the late release of the funds for project implementation and the very short timeframe within which the resources could be utilized. The Inspectors were informed that usually the delays are not connected with the AA's actions, but rather the slow decision-making at the level of the MDTF steering committee or the United Nations country team (UNCT). The long delays create reputation risks for the organization implementing the projects and also aggravate the non-effective use of resources. It was mentioned that the possibility of advance payments may create difficulties in some organizations, and criticism was expressed concerning the insurance coverage for activities undertaken under MDTFs.

113. The Inspectors were also informed that at the country level, sometimes the number of organizations participating in an MDTF-financed project and/or as members of the steering committee is too high, which slows down the approval process and prolongs project planning, formulation and implementation. Not only does this have a negative impact on effective and efficient coordination and cooperation among the participating organizations, but it also increases costs. In addition, some of the organizations do not have sufficient capacities in the country to participate in a meaningful way in the programmes/projects, which are usually led by the head of the UNCT. Also, sometimes the approved budgets for the MDTF-financed programmes are not commensurate with the activities that the organization is expected to perform.

114. The Inspectors are of the opinion that there is a need for a discussion forum on MDTF experiences and lessons learned, including an exchange of views among the major stakeholders on the effective and efficient use of MDTFs. While dialogue has been initiated with the donor countries, and is expected to be institutionalized between donors and the UNDG in the near future, there are no visible efforts to involve the other beneficiaries into the dialogue. A possible solution could be through the governing bodies of UNDP and the United Nations, in which both donor and beneficiary countries participate. The Inspectors therefore propose that the work of the MDTF Office be put on the agenda of the UNDP Executive Board and, in a more general context, the work and experiences of MDTFs should be put on the agenda of ECOSOC in the framework of the Triennial and Quadrennial Comprehensive Policy Reviews (TCPR/QCPR). In that way, MDTFs and their work would also achieve greater visibility.

Auditing MDTFs

115. The weaknesses and gaps in the audit coverage of MDTFs need to be addressed. Under the current framework, each participating organization is responsible for auditing the resources received through the MDTFs, in accordance with its financial regulations and rules. However a simple compilation of the audits of individual parts cannot be considered an adequate audit of an entire MDTF. As it stands, each organization only looks at its "own part" and the final outcome is rather a puzzle consisting of individual "pieces," instead of a full picture. With a view to improving the situation, a special agreement was concluded by the internal audit services of the United Nations system organizations and endorsed by UNDG in order to better coordinate the audit work and functions among the participating organizations, while respecting the authority, jurisdiction, resources and risk-based audit planning of the internal audit offices. The framework for auditing MDTFs is aimed at facilitating the comparability of audits for MDTF-financed programmes, including through conducting coordinated risk assessments, setting out common timeframes for audits and commensurable reporting formats.

116. While the conclusion of the framework for auditing MDTFs constitutes an important step forward, its practical implementation as well as cooperation and coordination among the internal audit services indicated that there is room for improvement, as the examples of the audits of the Iraqi Trust Fund and

the Sudanese Humanitarian Fund showed.[22] Different options could be considered to strengthen the audit mechanism of MDTFs, including: voluntary delegation of the audit coverage of a given programme/project to another United Nations participating organization; conducting joint audits with an ad hoc established interdisciplinary team from the participating United Nations system organizations, when the number of participants is limited; or outsourcing the audits by all the participating organizations to one single external consultant. While none of these options are perfect, and each has its advantages and disadvantages, any of them, in the opinion of the Inspectors, is better than not having an integrated audit of the MDTF.

117. The implementation of the following recommendations is expected to enhance the effectiveness and efficiency of MDTFs, as well as their audit coverage.

Recommendation 12

The Executive Board of UNDP should put on its agenda the experiences and lessons learned from the operations of UNDP/MDTF Office with a view to presenting it to ECOSOC for consideration within the framework of the TCPR/QCPR.

Recommendation 13

The Secretary-General, in his capacity as Chairman of the CEB, should request UNDG to review the current framework for auditing MDTFs in close collaboration with the heads of internal audit of the organizations participating in MDTFs, with a view to incorporating risk-based planning concepts, enhancing MDTF audit coverage, and achieving more integrated audits.

[22] See JIU report, "The Audit Function in the United Nations System" (JIU/REP/2010/5), chapter V, for more details.

Annex I

Resource distribution between regular budget (RB) and trust fund (TF) resources

(in thousands of US$)

Organization	2004-2005		2006-2007		2008-2009	
	RB	TF	RB	TF	RB	TF
UN	3,226,192	1,332,147	3,757,710	2,203,460	4,313,064	2,645,194
UNHCR	66,284	11,588	68,501	108,997	79,885	121,578
UNICEF	1,583,900	4,493,623	1,838,000	5,234,151	2,557,000	6,481,424
UNDP*	1,767,295	1,110,164	1,905,000	1,377,689	2,111,936	1,192,280
UNFPA	693,546	211,100	846,453	458,200	955,909	606,900
WFP		1,104,066		295,183		465,242
ILO	529,590	283,665	594,310	330,726	641,730	378,274
FAO	749,100	639,424	765,700	874,684	929,840	1,188,730
UNESCO	610,000	468,785	610,000	489,623	631,000	352,686
ICAO	125,125	225,854	132,331	330,947	139,162	281,550
WHO	880,110	2,023,515	915,314	3,183,160	958,840	2,787,585
UPU	54,924		59,008		31,316	
ITU	252,978	11,698	259,110	11,675	258,082	10,359
WMO	97,822	36,464	96,664	32,986	113,000	57,617
IMO	77,145	19,763	87,028	24,617	107,699	30,601
WIPO	523,992	10,513	405,344	12,696	603,481	16,505
UNIDO	182,248	162,329	186,084	169,154	193,037	205,067
UNWTO	27,980	1,776	33,572	1,893	36,083	3,918
Total	11,448,231	12,146,474	12,560,129	15,139,841	14,661,064	16,825,510
Grand Total	**23,594,705**		**27,699,970**		**31,486,574**	

Source: CEB data (A/65/187) for RB resources; responses to JIU questionnaire for TF resources.

* UNDP indicated that RB data contain core income only.

Annex II

Distribution of trust funds by donors*

	2004-2005					2006-2007					2008-2009				
	Member States	UN orgs.	Intl orgs.	Private & others	TOTAL	Member States	UN orgs.	Intl orgs.	Private & others	TOTAL	Member States	UN orgs.	Intl orgs.	Private & others	TOTAL
UN	877,106	61,073	72,157	321,811	1,332,147	1,290,117	78,856	493,559	340,928	2,203,460	1,458,461	70,130	888,533	228,070	2,645,194
UNHCR	N/A	N/A	N/A	N/A	11,588	N/A	N/A	N/A	N/A	108,997	N/A	N/A	N/A	N/A	121,578
UNICEF	2,360,006	135,321	152,244	1,846,052	4,493,623	3,077,728	471,238	261,757	1,423,428	5,234,151	3,502,259	716,905	317,159	1,945,101	6,481,424
UNDP	N/A	N/A	N/A	N/A	1,110,164	N/A	N/A	N/A	N/A	1,377,689	N/A	N/A	N/A	N/A	1,192,280
UNFPA*****	211,100	0	0	0	211,100	458,200	0	0	0	458,200	606,900	0	0	0	606,900
WFP****	1,068,627	10,945	8,443	16,051	1,104,066	228,324	8,739	25,992	32,128	295,183	312,558	26,061	31,101	95,522	465,242
ILO	257,163	16,364	6,878	3,260	283,665	276,200	33,340	15,383	5,803	330,726	290,859	48,702	26,043	12,670	378,274
FAO**	547,204	65,653	15,557	11,010	639,424	681,605	114,546	47,232	31,301	874,684	874,808	163,988	71,057	78,877	1,188,730
UNESCO	374,138	56,617	19,271	18,759	468,785	399,724	51,217	23,445	15,237	489,623	223,654	77,409	27,574	24,049	352,686
ICAO	223,031	0	1,619	1,204	225,854	327,838	0	1,755	1,354	330,947	280,163	201	190	996	281,550
WHO***	N/A	N/A	N/A	N/A	2,023,515	N/A	N/A	N/A	N/A	3,183,160	N/A	N/A	N/A	N/A	2,787,585
UPU															
ITU	3,086	1,637	1,027	5,948	11,698	5,504	0	0	6,171	11,675	3,819	200	1,690	4,650	10,359
WMO	32,360	1,504	1,007	1,593	36,464	30,993	1,119	118	756	32,986	47,319	5,766	4,384	148	57,617
IMO	5,181	10,117	3,090	1,375	19,763	7,885	9,466	4,020	3,246	24,617	21,327	3,928	3,070	2,276	30,601
WIPO	9,836	419	258	0	10,513	12,398	274	0	24	12,696					16,505
UNIDO	125,170	21,482	13,458	2,219	162,329	113,460	26,486	27,585	1,623	169,154	131,765	45,645	25,580	2,077	205,067
UNWTO	1,776	0	0	0	1,776	1,893	0	0	0	1,893	324	3,594	0	0	3,918
TOTAL	**6,095,784**	**381,132**	**295,009**	**2,229,282**	**12,146,474**	**6,911,869**	**795,281**	**900,846**	**1,861,999**	**15,139,841**	**7,754,216**	**1,162,529**	**1,396,381**	**2,394,436**	**16,825,510**

* Figures provided in response to the JIU questionnaire

** Together with Telefood and APOs

*** WHO indicated that these figures were "voluntary contributions"

**** There were three (3) exceptional bilateral contributions for Iraq up to US$945 million

***** UNFPA indicated that the data over the given years is not necessarily comparable, as information on donor distribution is only available for recent years

Annex III

Programme support cost (PSC) rates applied to trust funds in selected UN system organizations

Organization	Standard PSC rate	Deviations from the standard PSC rate	Remarks
UN	13%	Exceptions, in whole or in part, can be made only pursuant to a compelling request to the Controller. For example, for projects financed by the UN Peacebuilding Fund, indirect costs can be charged in the range between 5 to 9% (plus certain indirect costs charged by the Administrative Agent).	The UN PSC policies and rates also apply to the five Regional Commissions and other entities of the UN Secretariat
UNICEF	7%	A lower rate of 5% applies for non-thematic funds raised by the private sector in programme countries. Further, a reduction of 1% in the cost recovery rate can be approved in two categories: for joint programmes, in cases where the Executive Director considers the reduction to be in the best interest of enhancing the collective efforts of United Nations agencies; and for contributions to UNICEF over US$40 million, in cases where the Executive Director is satisfied that economies of scale are met.	
UNDP	7%	In very exceptional circumstances, waivers from the standard PSC rate may be granted by senior management.	
UNFPA	7%	A reduced rate of 5% is applied for procurement activities and if a donor funds programmes/projects in its own country.	
WFP	7% and 4%	A full PSC or ISC rate of 7% will be applied to trust fund activities which include all the characteristics of a normal WFP project (i.e. planning, purchasing, delivery monitoring etc.) and relies on services of the regional offices and HQ units in the same manner as a standard project. A 4% PSC or ISC rate will be applied for trust fund activities that are planned, resourced, executed and managed in-country and locally-generated funds cover the resulting overhead costs, unless exempted by the Executive Director. The Executive Director can grant a reduction or waiver of PSC or ISC for in-kind contributions where a reduction or waiver is in the best interest of the beneficiaries of WFP, provided that the PSC is insignificant, and where there is no additional administrative or reporting burden on the Programme.	
ILO	13%	A lower PSC rate can be negotiated on an exceptional basis. All waivers of support costs are approved by the ILO Treasurer and Financial Comptroller through the Chief of Budget and Finance.	
FAO	13%	Waivers from the standard PSC rate may be granted in certain circumstances. The authority to approve PSC rates that deviate from the standards is delegated to the Director, Office for Strategy, Planning and Resource Management.	

UNESCO	13%	The standard PSC rate can be waived or modified in exceptional circumstances and if derogation is granted by the Director -General prior to signing the agreement. UNESCO accepts rates of 7% for joint programming and MDTF's and for EU-funded projects.	
ICAO	10%	For ICAO Civil Aviation Purchasing Service (CAPS), a sliding scale is applied as follows: 6% for value of procurement up to US$100,000; 4% for value between US$100,000 and US$500,000; and a negotiable rate for value exceeding US$500,000.	
WHO	13%	Waivers from the standard PSC rate may be granted for certain types of trust funds in exceptional circumstances.	
UPU	N/A		
ITU	10% and 5 to 7%	The current ITU policy is to charge a standard rate of 10% to small scale projects and 5 to 7% to large scale projects. Usually, 6 to 7.5% is charged for Funds in Trust, and 3 to 5.25% to some large funds-in-trust projects.	
WMO	N/A		
IMO	13%	The standard PSC rate is 13%. Deviation: depending on the agreement, lower rates (ranging from 6 to 8%) are applied for other UN/international organizations, World Bank and EU. In the case of multi-donor trust funds established by IMO, no support cost is charged because the funds are pooled with a no-donor tag and there is no individual reporting to donors other than general standard reports to IMO organs.	
WIPO	12% and 13%	A 12% PSC rate is applied to Funds in Trust relating to Junior Professional Officers (JPOs) and 13% PSC rate to all other Funds in Trust. However, a PSC rate of 0% is applied to Funds in Trust where the source of funding is a developing country. Also, exceptionally a PSC rate of 7% has been applied.	
UNIDO	7 to 13%	Deviations to the standard PSC rate are possible. "In exceptional situations, where an individual project or activity justifies a different rate, it shall be approved by the Director-General upon the advice of the Director, Financial Services." (UNIDO, Financial Rule 106.3/106.4.2)	The pertinent policy note of the Director-General related to PSC in accordance with Rule 106.3/106.4.2 of the Financial Regulations and Rules of UNIDO is currently under consideration and being updated.
UNWTO		UNWTO has not established a standardized cost recovery policy and rate. According to UNWTO financial rules & regulations, support costs can be recovered for managing the different types of trust funds, although the rate is not specified but negotiated on an ad-hoc basis prior to signing the agreement. The Secretary-General, or officers with delegated authority, negotiate and decide on the application of the PSC rate.	

Annex IV

[illegible]

[illegible]

[illegible]

Annex V

Overview of action to be taken by participating organizations on JIU recommendations
JIU/REP/2010/7

		Intended impact	United Nations, its funds and programmes													Specialized agencies and IAEA												
			CEB*	United	UNCTAD	UNODC	UNEP	UN-HABITAT	UNHCR	UNRWA	UNDP	UNFPA	UNICEF	WFP	UNOPS	ILO	FAO	UNESCO	ICAO	WHO	UPU	ITU	WMO	IMO	WIPO	UNIDO	UNWTO	IAEA
Report	For action		☒	☒	☒	☒	☒	☒	☒	☐	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☐
	For information		☐	☐	☐	☐	☐	☐	☐	☒	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☒
Recommendation 1		e		L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Recommendation 2		e		L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Recommendation 3		o		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation 4		g		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation 5		o	E																									
Recommendation 6		o	E																									
Recommendation 7		o		L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Recommendation 8		g		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E

Legend: **L:** Recommendation for decision by legislative organ
E: Recommendation for action by executive head (* by the Chairman of the CEB)
☐ : Recommendation does not require action by this organization

Intended impact: **a:** enhanced accountability **b:** dissemination of best practices **c:** enhanced coordination and cooperation **d:** enhanced controls and compliance **e:** enhanced effectiveness **f:** significant financial savings **g:** enhanced efficiency **o:** other

** Covers all entities listed in ST/SGB/2002/11, other than UNCTAD, UNODC, UNEP, UN-HABITAT, UNHCR, UNRWA.

	Report		Intended impact	United Nations, its funds and programmes												Specialized agencies and IAEA											
	For action	For information		CEB*	United	UNCTAD	UNODC	UNEP	UN-HABITAT	UNHCR	UNRWA	UNDP	UNFPA	UNICEF	WFP	UNOPS	ILO	FAO	UNESCO	ICAO	WHO	UPU	ITU	WMO	IMO	WIPO	UNIDO	UNWTO	IAEA
Recommendation 9			a		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation			g		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation			o		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation			e		L							L																
Recommendation			o	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E

Legend: **L:** Recommendation for decision by legislative organ
E: Recommendation for action by executive head (* by the Chairman of the CEB)
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Intended impact: **a:** enhanced accountability **b:** dissemination of best practices **c:** enhanced coordination and cooperation **d:** enhanced controls and compliance **e:** enhanced effectiveness **f:** significant financial savings **g:** enhanced efficiency **o:** other

** Covers all entities listed in ST/SGB/2002/11, other than UNCTAD, UNODC, UNEP, UN-HABITAT, UNHCR, UNRWA.

[a] Recommendation 11 is addressed to the heads of internal audit in the United Nations system organizations.

United Nations A/66/348/Add.1

General Assembly

Distr.: General
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Original: English

Sixty-sixth session
Agenda item 140
Joint Inspection Unit

Policies and procedures for the administration of trust funds in the United Nations system organizations

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly his comments and those of the United Nations System Chief Executives Board for Coordination on the report of the Joint Inspection Unit, entitled "Policies and procedures for the administration of trust funds in the United Nations system organizations" (JIU/REP/2010/7).

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Summary

The report of the Joint Inspection Unit, entitled "Policies and procedures for the administration of trust funds in the United Nations system organizations", focuses on the administrative and managerial aspects of trust funds, including the policies, rules and regulations organizations use to manage these types of accounts.

The present note presents the views of United Nations system organizations on the recommendations provided in the aforementioned report. The views of the system have been consolidated on the basis of inputs provided by member organizations of the United Nations System Chief Executives Board for Coordination, which welcomed the review by the Joint Inspection Unit on the policies and procedures for the administration of trust funds in the United Nations system organizations, and generally support the implementation of its recommendations.

I. Introduction

1. The report of the Joint Inspection Unit, entitled "Policies and procedures for the administration of trust funds in the United Nations system organizations", focuses on the administrative and managerial aspects of trust funds, including the policies, rules and regulations organizations use to manage these types of accounts.

II. General comments

2. Agencies welcome the review by the Joint Inspection Unit on the policies and procedures for the administration of trust funds in the United Nations system organizations. They generally support the implementation of the recommendations issued in the report and many note that the recommendations will enhance the effectiveness and efficiency of trust fund management and administration.

3. Agencies highlighted several aspects of the report in their responses. For example, as discussed under recommendations 1 and 2, they agreed that pooling the resources that are provided for individual trust funds into larger funds with more general and thematic purposes would reduce fragmentation.

III. Specific comments on recommendations

***Recommendation 1*: The legislative bodies of the United Nations system organizations should strengthen the integrated management of the regular budget and extrabudgetary resources in order to ensure that the extrabudgetary resources, including the trust funds, are in line with the strategic and programmatic priorities of the organizations.**

4. Agencies support recommendation 1, with several indicating that regular budget and extrabudgetary activities are already driven by the strategic and programmatic priorities of their organizations. Some agencies also comment that this recommendation is in line with their existing results-based management plans, which comply with benchmark 5 (resources [should be] well aligned with long-term objectives") in part I of the Joint Inspection Unit report entitled "Overview of the series of reports on managing for results in the United Nations system" (JIU/REP/2004/5).

***Recommendation 2*: The legislative bodies of the United Nations system organizations should invite all donors to respond favourably to the efforts made by the organizations to increase the portion and volume of thematic trust funds and other types of pooled funds, in order to facilitate more efficient trust fund management.**

5. While agencies agree with the call for increased support of thematic and other types of pooled funds, as proposed in recommendation 2, they note that it remains unclear how governing bodies could put the proposal into practice based on such a broad recommendation. Nevertheless, agencies strongly noted that regular (unearmarked) contributions continue to be their preferred modality, with extrabudgetary resources as a supplementary form of contribution and, where they are earmarked, they should be thematic. In addition, agencies suggest that wider acceptance by donors of thematic trust funds would enhance programme efficiency.

***Recommendation 3*: The executive heads of the United Nations system organizations should ensure that risks related to trust funds are assessed and measures are taken to manage them.**

6. Agencies support recommendation 3 and accept that risks related to trust funds will be identified and managed, especially as part of existing risk management processes. They note that donors, in particular from industrialized countries, increasingly require inclusion of provisions to address risk areas, such as misuse and fraud.

***Recommendation 4*: The executive heads of the United Nations system organizations should review, consolidate and update existing legal instruments relating to the administration and management of trust funds in their organizations, and ensure that they are available to and accessible by all staff concerned in a user-friendly format.**

7. Agencies accept recommendation 4 and support the need to review, consolidate and update existing legal instruments relating to the administration and management of trust funds in their organizations and to make them available, as appropriate. Several agencies indicate that this process is already under way in their institutions. Furthermore, some agencies note that no common template exists and that each donor brings its own instruments, which must be reviewed for their legal and financial implications for the organization. Therefore, a common template, which can be used for all contribution agreements, would facilitate the processing of agreements and reduce administrative burdens.

***Recommendation 5*: The Secretary-General, in his capacity as Chairman of the United Nations System Chief Executives Board for Coordination (CEB), should develop a common position regarding the conditions and modalities for accepting and receiving resources for trust funds from regional financial institutions and development banks. Once such a common position has been developed, the rules, regulations and policies of the organizations should be updated and submitted to the respective legislative bodies for approval.**

8. Agencies accept and support the development of a common system-wide position regarding the conditions and modalities for accepting and receiving resources for trust funds, as suggested in recommendation 5.

***Recommendation 6*: The Secretary-General, in his capacity as Chairman of CEB, should revitalize the inter-agency work with a view to coming to an agreement among the United Nations system organizations on the harmonization of cost recovery policies and principles for trust funds, as well as activities financed by other extrabudgetary resources. Such cost recovery policy should include an unambiguous rule on the programme support cost rate and the categories of costs to be charged directly to the programmes.**

9. Agencies generally support inter-agency harmonization of cost recovery policies and principles for trust funds, as called for in recommendation 6, and are prepared to work within the framework of the working groups of CEB to reach a position that all agencies accept. They note that such harmonization could lead to improved communication with donors. However, they also suggest that inter-agency agreements will need to reflect business model differences between funds and programmes and specialized agencies.

***Recommendation 7*: The legislative bodies of the United Nations system organizations should review the harmonized cost recovery policies and principles for trust funds and activities financed by other extrabudgetary resources, once they have been agreed within CEB, with a view to updating the cost recovery policies of their organizations accordingly.**

10. Agencies support recommendation 7, which they note is directed at legislative bodies.

***Recommendation 8*: The executive heads of the United Nations system organizations should ensure that their current and future enterprise resource planning systems can provide the required financial data for managing, monitoring and reporting on trust funds and trust-fund-financed activities.**

11. Agencies support recommendation 8 and several agencies indicate that existing enterprise resource planning systems already include functionality for managing trust funds and trust-fund-related activities, or that new systems will include this functionality.

***Recommendation 9*: The executive heads of the United Nations system organizations should review and update the provisions for delegation of authority with regard to trust fund management with a view to adjusting to the changing and increasing role of the regional and country offices.**

12. Agencies of the United Nations system support recommendation 9, with several agencies indicating that reviews of the nature called for in the recommendation are either in progress, planned or already completed. In particular, agencies suggest that an appropriate delegation of authority could facilitate the processing of agreements.

***Recommendation 10*: The executive heads of the United Nations system organizations should ensure that training programmes for field staff include adequate training on trust fund administration and management.**

13. United Nations system agencies support recommendation 10 and agree that training programmes for field staff should include trust fund administration and management. Moreover, they indicate that such training should also include headquarters staff members who are directly involved in the administration of trust fund contributions.

***Recommendation 11*: When preparing their internal audit plan, the heads of internal audit in the United Nations system organizations should ensure that appropriate attention is given to the risks directly related to the operation and management of trust funds, including, but not limited to, large trust funds.**

14. Agencies support recommendation 11 and several note that internal audit plans already encompass trust funds.

***Recommendation 12*: The Executive Board of the United Nations Development Programme (UNDP) should put on its agenda the experiences and lessons learned from the operations of the UNDP/Multi-donor Trust Fund Office with a view to presenting it to the Economic and Social Council for consideration within the framework of the triennial/quadrennial comprehensive policy review.**

15. While agencies support the main point of recommendation 12, which calls for a review of the experiences and lessons learned from the operations of the UNDP/Multi-donor Trust Fund Office, they suggest that the Executive Board of UNDP may not be the most appropriate forum for a "dedicated agenda item" of this nature. Agencies suggest that, given the inter-agency perspective related to multi-donor trust funds and the need to include all stakeholders in the discussion, other forums may prove to be more appropriate for such a discussion. They suggest that the Development Operations Coordination Office, as secretariat to the United Nations Development Group and convener of donor-United Nations Development Group meetings in accordance with the management and accountability matrix, could organize this discussion and therefore include all stakeholders. Agencies agree that the Economic and Social Council is the existing forum with wide participation of stakeholders, but note that the recommendation is limited to the UNDP Executive Board, which does not have wide participation of all stakeholders.

***Recommendation 13*: The Secretary-General, in his capacity as Chairman of CEB, should request the United Nations Development Group to review the current framework for auditing multi-donor trust funds in close collaboration with the heads of internal audit of the organizations participating in multi-donor trust funds, with a view to incorporating risk-based planning concepts, enhancing multi-donor trust fund audit coverage and achieving more integrated audits.**

16. Agencies generally support the strengthening of the current framework for auditing multi-donor trust funds, as called for in recommendation 13.

United Nations A/66/349

General Assembly

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Sixty-sixth session
Item 134 of the provisional agenda*
Proposed programme budget for the biennium 2012-2013

Feasibility study on the United Nations Headquarters accommodation needs 2014-2034

Report of the Secretary-General

Summary

In its resolution 60/282, the General Assembly requested the Secretary-General to conduct a comprehensive study on the feasibility of the construction of a building on the North Lawn. The study was to include a number of factors such as architectural, security and host city issues that had not been incorporated in the business analysis contained in the report of the Secretary-General (A/60/874).

The present report is submitted pursuant to resolution 60/282 and presents the feasibility study on a new building on the North Lawn in the context of the projected accommodation needs of United Nations Headquarters and participating funds and programmes (the United Nations Joint Staff Pension Fund, the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services) from 2014 to 2034. The study also presents preliminary costing associated with such long-term options.

After the completion of the feasibility study, New York State passed legislation granting the United Nations Development Corporation approval to construct a new office building, to be referred to as UNDC-5, on the park immediately south of 42nd Street and First Avenue. The United Nations is the proposed occupant of UNDC-5. A condition of the approval is that the Development Corporation obtain agreement from the affected local community boards to build on the park by 10 October 2011.

* A/66/150.

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It is projected that resource requirements for the recommendation most appropriate at the time of the study would need to be committed within the biennium 2014-2015. The feasibility study should be considered in light of recent and ongoing developments regarding UNDC-5.

I. Introduction

1. In its resolution 60/282, the General Assembly stressed the need for a long-term strategy for the office accommodation at United Nations Headquarters and requested the Secretary-General to conduct a comprehensive study on the feasibility of constructing a building on the North Lawn of the United Nations Headquarters compound. The feasibility study was to address a number of factors such as security, architectural and host city and community issues that had not previously been included in the business analysis contained in the report of the Secretary-General (A/60/874). The funding for the study was included in the programme budget for the biennium 2008-2009.

2. One motivating factor for the feasibility study is the upcoming expirations of the office space leases of the United Nations Development Corporation, buildings 1 and 2. These buildings were constructed in 1976 expressly for the United Nations by the United Nations Development Corporation, a public benefit corporation of the State of New York, and are leased at below-market rates. They provide approximately 670,000 square feet (62,245 square metres) of office space, with the United Nations Secretariat and the United Nations Development Programme as the primary tenants. The current leases of UNDC-1 and UNDC-2 expire at the end of March 2018, with options to extend to the end of March 2023, but no renewal options beyond that date.

II. Background

3. Following the approval of resources for the feasibility study and a competitive solicitation process, the contract for the study was awarded in February 2010 to Skidmore, Owings and Merrill, a leading international architectural consultancy firm. The study proceeded to assess the United Nations long-term real estate needs over a 20-year time frame beginning in 2014.

4. To understand the Organization's long-term needs, the starting point of the study was a complete assessment of the staff who will be accommodated in long-term leased buildings and United Nations-owned properties at Headquarters in 2014. The complete list of currently occupied buildings is shown in table 1. Temporary swing spaces leased for the capital master plan are expected to be vacated prior to 2014 and were therefore not included in the study.

Table 1
United Nations system occupied buildings in New York as of 2014

A. Owned space of the United Nations system in New York as of 2014

Location	*Organization*	*Gross square feet*
Secretariat Building	United Nations	900 000
Office space in other compound buildings, including part of Conference Building, Library Building, basement, General Assembly	United Nations	416 250
UNITAR	United Nations	23 000
Total owned		**1 339 250**

B. Leased space of the United Nations system in New York as of 2014

Location	*Organization*	*Gross square feet*
UNDC-1	United Nations, UNDP	348 140
UNDC-2	United Nations, UNDP	331 179
UNDC-3	UNICEF	180 000
FF Building, 304 East 45 St.	United Nations, UNDP	319 024
Nigeria House	UNDP	6 856
Alcoa Building	United Nations	30 845
Falchi ARMS Warehouse, Long Island City	United Nations	50 413
1 Dag Hammarskjöld Plaza	United Nations, Pension Fund	88 641
Daily News Building	United Nations	74 822
633 Third Avenue	UNICEF	115 459
605 Third Avenue	UNFPA	130 740
Innovation, 300 East 42nd St.	United Nations	132 602
Court Square	United Nations	79 079
Albano Building	United Nations	187 060
Chrysler Building	UNOPS	40 000
Total leased		**2 114 860**

Abbreviations: UNDP, United Nations Development Programme; UNFPA, United Nations Population Fund; UNICEF, United Nations Children's Fund; UNITAR, United Nations Institute for Training and Research; UNOPS, United Nations Office for Project Services.

5. A steering committee, chaired by the Under-Secretary-General for Management, was established in May 2010. The committee comprised senior officials from across the Organization, including the participating funds and programmes, as follows: the Executive Office of the Secretary-General, the Department of Management, the Department of Safety and Security, the Department of Economic and Social Affairs, the Department of Field Support, the Department

for General Assembly and Conference Management, the Office of Information and Communications Technology and the United Nations Development Programme.

6. The steering committee provided overall guidance and direction to the consultant team on the long-term office space strategy, guided the progress of the study and endorsed recommendations during the course of the project.

7. The feasibility study team conducted one-on-one interviews with each member of the steering committee to establish a set of vision principles that would guide the project. These vision principles were endorsed by the steering committee and used to establish the framework for the subsequent analysis. The vision principles were as follows:

(a) The United Nations Headquarters campus is a unique and visible symbol of the Organization's mission. The campus should remain open and accessible to the public while providing necessary security. Its identity should inspire all those who work for the Organization as well as those who visit;

(b) The New York real estate portfolio of the United Nations Headquarters should be consolidated within a maximum 10-minute walking distance of the main buildings to create a sense of campus, promote efficient operations by maximizing the use of the existing facilities and provide greater operational efficiencies and security control;

(c) Technology is central to the implementation of United Nations Headquarters future initiatives, including the enterprise resource planning system, which responds to global climate change and promotes workplace best practices such as a paperless (digital) office, and global conferencing;

(d) While the United Nations workplace should embody functionality, diplomatic decorum carries equal importance. The workplace should be flexible and facilitate efficiency and productivity to accommodate a population that fluctuates owing to changing mandates;

(e) Continuous moderate growth of space requirements is projected. Global operations will continue to decentralize. At the same time, additional and expanded mandates are expected to lead to increased space needs. The Organization's future real estate should provide for departmental elasticity and permit flexible space utilization to address its fluctuating requirements. Polices should be adopted to implement efficient space management;

(f) The highest goals for achieving a "green building" will be recommended in accordance with the principles of energy conservation and sustainability.

8. The feasibility study team gathered historical data on the growth in the number of staff and associated space needs over the last decade. The study team then interviewed all Secretariat departments as well as the participating funds and programmes in order to identify trends and drivers and project space requirements until 2034. The United Nations Children's Fund will own the building it currently occupies, UNDC-3, at the end of the lease term. Given that its long-term accommodation needs in New York are met, the United Nations Children's Fund chose not to participate in the feasibility study.

III. Key findings

9. The United Nations Secretariat currently owns approximately 51 per cent and leases 49 per cent of its office space needs. The participating funds and programmes currently lease 100 per cent of their office space needs.

10. The United Nations has leased office space incrementally in response to its ongoing growth within the Midtown East neighbourhood of Manhattan. The result is that the Organization occupies most of the desirable and acceptable commercial properties within the vicinity of the Secretariat compound.

11. The population projections for the New York staff of the Secretariat, the United Nations Joint Staff Pension Fund, the United Nations Development Programme, the United Nations Office for Project Services and the United Nations Population Fund were calculated at an average annual growth rate of 1.1 per cent from 2014 to 2034. These population projections were used as the basis for the feasibility study. The information was compiled using historical data provided by Secretariat departments, while the funds and programmes provided their respective historical data together with future projections.

12. The 2014 milestone relates to the reoccupancy of the Secretariat after the completion of the capital master plan. The 20-year projection begins in 2014 and extends to 2034. This would allow the Organization to plan for growth and implement a strategy accordingly. The year 2023 is a milestone owing to the lease expirations of UNDC-1 and UNDC-2. Projections of the required space corresponding to the estimated headcount at that point in time were calculated.

13. For the purpose of determining an overall baseline space requirement, an allowance of 250 square feet (23 square metres) per person was used. This allowance is currently used by the United Nations Secretariat when searching for commercially leased office space and includes an allowance for miscellaneous shared space such as circulation and meeting rooms, etc.

14. Tables 2 and 3 below indicate the progression in space requirements between 2014 and 2034.

Table 2
Long-term accommodation requirements

(Area calculated in square feet)

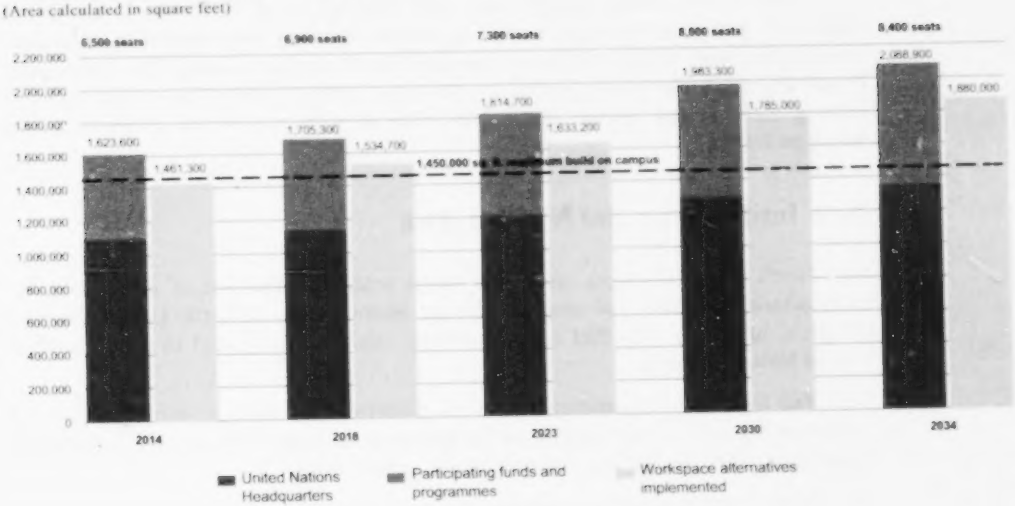


Table 3
Projected incremental staff growth[a]

Organization	*2010*	*2014*	*2018*	*2023*	*2030*	*2034*
United Nations staff	7 907	8 261	8 630	9 115	9 841	10 281
Independent offices	304	318	332	350	378	395
UNJSPF	246	288	337	410	539	631
UNDP	1 209	1 263	1 320	1 394	1 505	1 572
UNFPA	450	470	491	519	560	585
UNOPS	107	112	117	123	133	139
Total staff	**10 223**	**10 711**	**11 226**	**11 911**	**12 956**	**13 603**

Abbreviations: UNDP, United Nations Development Programme; UNFPA, United Nations Population Fund; UNJSPF, United Nations Joint Staff Pension Fund; UNOPS, United Nations Office for Project Services.

[a] Staff growth projection at annual average of 1.1 per cent.

15. In summary, in 2014 the Organization will require an additional 1.62 million square feet (150,500 square metres) to complement the existing office accommodation currently provided in the United Nations compound. The requirement in 2023 will increase to 1.81 million square feet (168,150 square metres) and to 1.88 million square feet (174,660 square metres) in 2034. These estimates assume that between 2023 and 2034, the United Nations will proactively implement "alternative workplace strategies", achieving 20 per cent efficiency gains and thereby reducing the need for additional office space for the designated time period.

16. The consulting team identified several efficiency opportunities relating to the use of office space that would result in reduced real estate requirements and lower operational costs. These opportunities are referred to as "alternative workplace strategies" and relate to aspects such as mobile working, telecommuting, flextime, compressed work weeks, core hours, summer hours and job-sharing. The sustainable benefits of these alternative workplace strategies include reduced paper use, reduced heating and cooling, greater space utilization as well as reduced commuting and travel pollution.

IV. New building on the North Lawn

17. North Lawn concepts were developed with the intention of preserving the architectural integrity and original design intent of the historic United Nations complex, in such a way that a new building might be integrated in a new unified United Nations campus.

18. The concepts incorporated current principles of energy conservation and sustainability and the required security measures factored in existing Headquarters operations, while respecting community and urban issues.

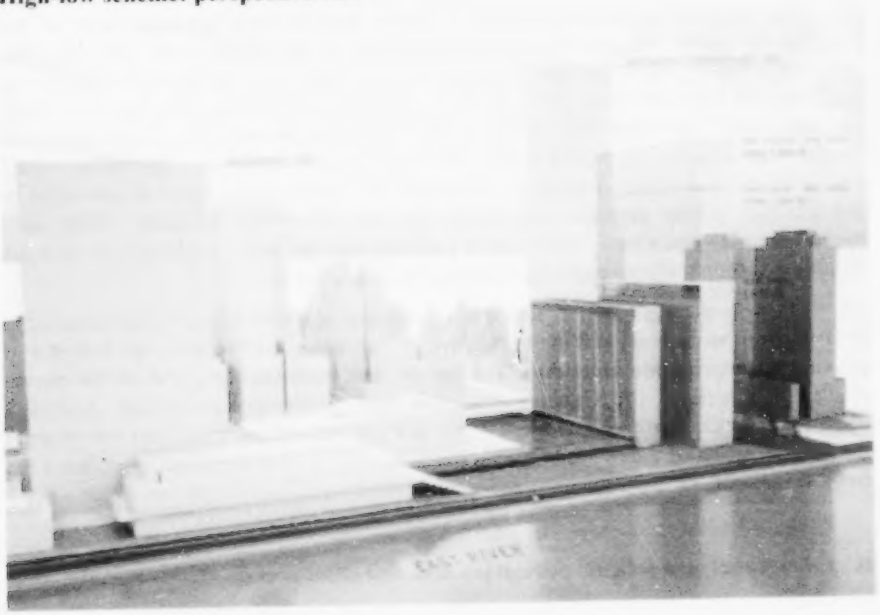
19. In applying the vision principles, the consistent themes to be achieved by each conceptual design were: openness, transparency and continuity of the public promenade from the General Assembly podium to the new building under consideration.

20. It was decided that the maximum capacity for any new building on the North Lawn would be 1,450,000 square feet (135,000 square metres). This building size is calculated by achieving the required security set-backs and taking into consideration heights, massing, urban issues, the size of floor plates as well as the overall capacity of the Secretariat campus. Taking into consideration historical and projected changes in office space needs and in accordance with industry best practices, the United Nations should aim to own up to 80 per cent of its office requirements and lease the remainder. Leased space can be added or relinquished more readily than owned space.

21. Within the parameters of the study, and in comparison with other options, building on the North Lawn represented the lowest risk and lowest life-cycle cost, primarily because the United Nations owns the land that it would build upon, reducing both risk and cost. A unified compound would offer additional operational efficiencies and allow the Organization to expand services and amenities to delegates and staff alike.

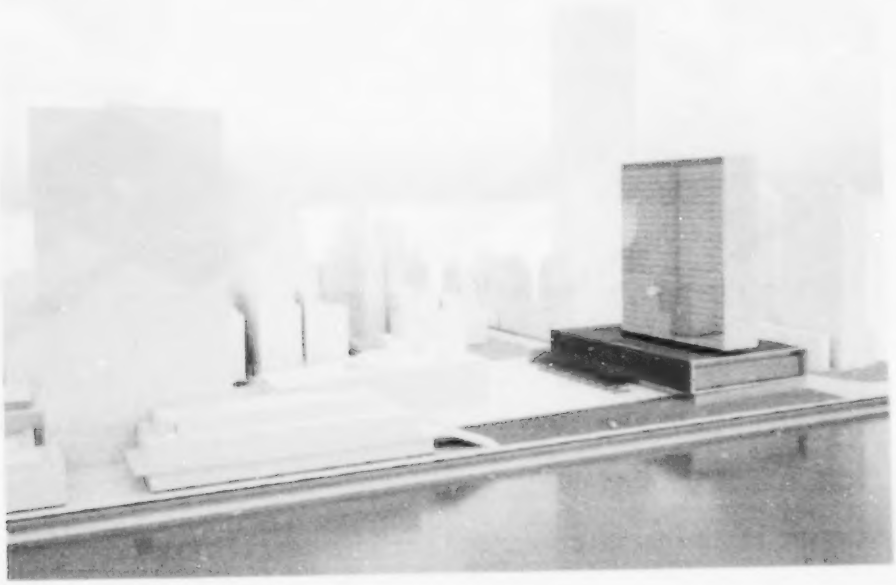
22. After considering many variations and the broad concepts of buildings on the North Lawn that would meet the United Nations requirements, the feasibility study team selected two basic building schemes for further study: (a) a high-low scheme (figure I); and (b) a courtyard scheme (figure II). The high-low scheme consists of a high tower and a low tower joined by an atrium. The courtyard scheme consists of a low building covering a large area creating courtyard space in the centre, with a tower extending up from the low building. These two basic schemes cover the parameters that need to be considered.

Figure I
High-low scheme: perspective view



Source: Skidmore, Owings and Merrill.

Figure II
Courtyard scheme: perspective view



Source: Skidmore, Owings and Merrill.

V. Architectural, security and host city and community issues

23. The new North Lawn building concepts aim to meet the intentions of the original designers, who had envisioned a building on the North Lawn. The site plan includes a major pedestrian and ceremonial entrance at 47th Street, as well as visual and physical connections to the East River (see figure III). New construction would restore access from East 47th Street to the campus at the original access point and would also restore the North Lawn area as a public space incorporating visual access to the East River. Pedestrian access to the North Lawn could be provided to the general public through augmented security screening facilities while staff movement between a new North Lawn building and the other buildings on campus would be through separate passages under the North Lawn.

24. The volume and position of the new building concepts allow visual separation from historic structures, and the rectilinear volumes perpendicular to the Secretariat provide an appropriate counterpart to the original slab building and to the north-south orientation of the General Assembly and Conference Buildings. Although open space at the north end of the campus is significantly reduced from the original design, the siting of a new building can be achieved in such a way as to preserve the trees at that end.

Figure III
High-low/courtyard scheme pedestrian and amenities access

High-low scheme **Courtyard scheme**

Source: Skidmore, Owings and Merrill.

VI. Other potential strategies

25. The study considered and compared a newly constructed building on the North Lawn with other long-term approaches to real estate with respect to four primary categories/options: (a) build on campus (new North Lawn building); (b) buy an existing building off campus; (c) lease space off campus; and (d) construct a building off campus.

26. A newly constructed North Lawn building would allow the United Nations to maximize adherence to the vision principles established at the outset of the present study, while affording many advantages of ownership and maintaining one unified campus. The other three primary real estate approaches did not achieve the vision principles to the same degree as a new building on the North Lawn.

27. The United Nations Development Corporation buildings represent a significant portion of the leased portfolio and if they were to be available upon expiration of the current leases, they would likely have their rates reset to market level, which would be considerably higher than the current rates. Regardless of any lease renewals, these buildings contain only about 670,000 square feet (62,245 square metres) and would not be sufficient to meet the space requirement projected for 2023.

28. An assumption was established for all real estate scenarios considered, including building on the North Lawn, that approximately 20 per cent of the overall space requirement would be leased. This approach affords flexibility to meet changing needs and reduces risk. As a result, the other options of constructing off campus and buying a building would need to be combined with some amount of leasing to meet the overall office space requirement.

29. The option of building off campus requires the purchase of land. Potential sites in the United Nations Headquarters neighbourhood and within a 10-minute walking distance of the main buildings were limited in number and were not large enough to construct a single building of the required size. In addition, this option would require substantial time to conduct negotiations with owners, neighbours and community groups before any building could be constructed. All of these issues increased the risks and estimated costs of constructing a new building off the United Nations compound, were the United Nations to pursue this option directly on its own behalf. Preliminary estimates are indicated in figures IV and V and tables 4 and 5.

30. Purchasing an existing building has the benefit of an existing structure built on land that has already been approved for that purpose. However, in order to meet the Organization's space requirements until 2034, several buildings would need to be purchased and renovated. Additionally, the existing building stock is many years old and inefficient both from infrastructure and space utilization perspectives. These factors increase the risks and costs associated with purchasing existing buildings.

31. Finally, should Member States choose not to pursue the options of building or buying, a status quo leasing strategy could be a viable alternative that would require timely and careful negotiations of existing leases as expirations approach or new space is made available. In the case of renegotiating the leases of UNDC-1 and UNDC-2, the rates will likely be increased to current market rates compared with the favourable rates that the United Nations has enjoyed throughout the lease term. While there are advantages to this option, such as continued efficiency owing to

existing security and technology infrastructures, there are also disadvantages, including staff being dispersed in multiple buildings, and the management of risk associated with numerous contracts increases costs.

United Nations Development Corporation: recent developments

32. On 15 July 2011, the Governor of the State of New York signed legislation authorizing New York City to discontinue the use of part of the Robert Moses Playground, south of 42nd Street and east of First Avenue, as parkland and to transfer it to the United Nations Development Corporation. Under this legislation, New York State Assembly Bill No. A08305A, the City is required to consult with and obtain the agreement of members of the State Senate, the State Assembly and the City Council representing the area in which the parkland is located through a memorandum of understanding, which must be signed by the Government authorities by 10 October 2011 at the latest. The legislation also states that a building that the United Nations Development Corporation would construct on that land should not be higher than the Secretariat Building and should not have more than 900,000 square feet of floor area. Should Member States make a decision to proceed in cooperation with host Government authorities to develop UNDC-5, incorporating either a "lease-to-own" or similar arrangement that would result in the United Nations owning the building, this would be seen as a decision to build off campus. Such a decision would preclude following up on other major approaches, i.e. building on campus, purchasing existing buildings off campus or leasing on a large scale.

VII. Preliminary cost estimates

33. Prior to the analysis of costs, it was necessary to build a costing foundation for the four primary options: (a) building on campus; (b) buying off campus; (c) leasing off campus; and (d) building off campus. The vision principles established the importance of a sense of campus with a maximum 10-minute walking distance from the Secretariat. This was a key priority for the assessment of potential future sites.

34. All potential sites were categorized and evaluated based on key criteria specific to each building type as well as overall unifying criteria. Risk criteria were also established and accounted for in the evaluations. Following a comprehensive analysis of sites, the results were consolidated and levelled to create an average dollar per square foot baseline, which was then incorporated in the cost models.

35. The resulting programming need of approximately 1.81 million square feet (167,225 square metres) of office space is beyond the desired capacity for the United Nations Secretariat campus. It is therefore necessary to combine distinct real estate options in varying degrees to create feasible real estate scenarios that could meet the long-term space requirements. Once the scenarios were developed, risk evaluations informed the assessment of a set of qualitative and quantitative pros and cons, providing a "risk ranking" for each real estate scenario.

36. The cost models developed for each option provided an estimate of a total project cost consisting of six primary components where they were applicable:

owner soft costs; trade costs; construction costs; new core and shell construction; fit-out costs; and project contingency.

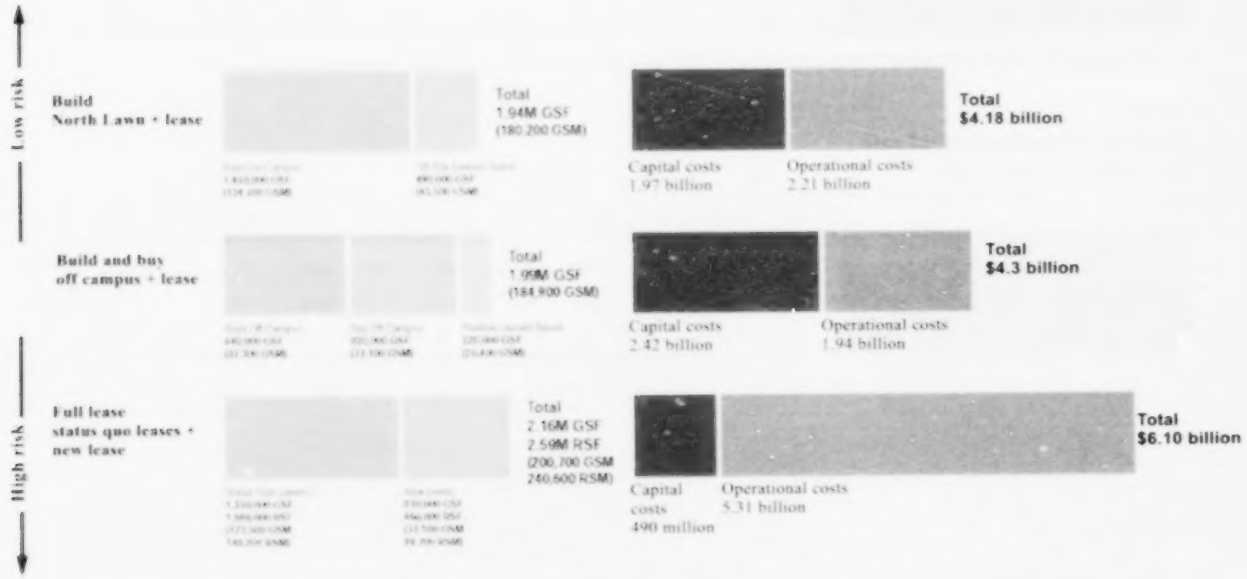
37. The North Lawn cost model options were prepared using the conceptual designs illustrated in section IV of this report. These conceptual designs provided a basis for cost-estimating, based on quantities found in the designs as well as benchmark industry costing standards. The models incorporated all major building systems, including sustainable building systems, and any significant site constraints that could affect the cost of constructing a new building.

38. The categories of building off campus, buying and leasing were modelled on a variety of potential buildings and sites that could be available within the United Nations Headquarters neighbourhood. Building off campus carried many of the same costs as building on campus with the exception of having to purchase land. Other factors, such as the upgrading of existing infrastructure and security, were also taken into account.

39. The status quo lease costing was modelled on industry standards and historical United Nations expenditure for the fit-out and upgrading of leased space. These costs include upgrades to infrastructure for increased sustainability as well as workplace upgrades.

40. The figures and tables below demonstrate preliminary cost estimates for the three most likely scenarios that the Organization may consider. In line with previous decisions taken by the Organization related to major capital projects, the costing tables have not taken into account any financing.

Figure IV
Scenario: programme, capital and operational costs

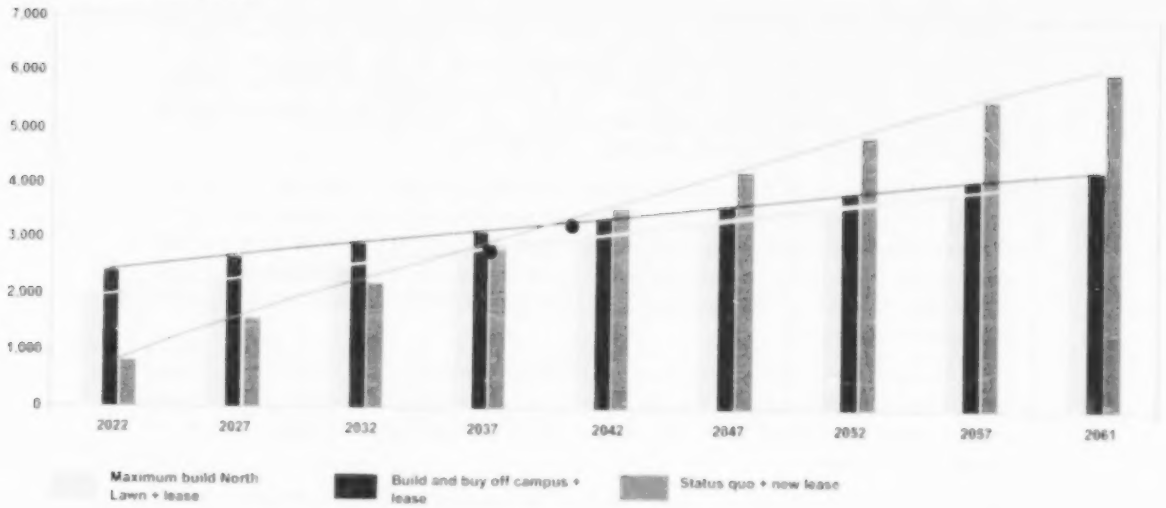


Abbreviations: GSF, gross square feet; GSM, gross square metres; RSF, rentable square feet; RSM, rentable square metres.

Figure V

Analysis of life-cycle (cumulative) cost

(Millions of United States dollars)



Life-cycle cost at sample points in time[a]

	2022	*2027*	*2032*	*2037*	*2042*	*2047*	*2052*	*2057*	*2061*
Maximum build North Lawn + lease	2 030	2 300	2 580	2 860	3 140	3 410	3 690	3 960	4 180
Build and buy off campus + lease	2 470	2 720	2 950	3 180	3 420	3 650	3 880	4 110	4 290
Status quo + new lease	850	1 620	2 280	2 950	3 610	4 270	4 930	5 580	6 090

[a] Costing in millions of United States dollars as of 2011 and based on annual incremental adjustments.

Table 4

Analysis of annual capital cost

(Millions of United States dollars)

	2014	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*Total*
Maximum build North Lawn + lease	28	28	33	329	329	408	408	408				1 970
Build and buy off campus + lease	22	40	41	274	505	512	512	512				2 420
Status quo + new lease	0	30	41	41	41	158	158	158	53	53	53	790

Table 5
Summary matrix of costs
(United States dollars)

	Capital cost 2014-2021	*Annual operational cost*	*40-year life-cycle operational cost*	*Capital and 40-year life-cycle operational cost*
Maximum build North Lawn + lease	1 970 000 000	55 000 000	2 210 000 000	4 200 000 000
Build and buy off campus + lease	2 450 000 000	46 000 000	1 840 000 000	4 300 000 000

	Capital cost 2014-2021	*Annual operational cost*	*40-year life-cycle operational cost*	*Capital and 40-year life-cycle operational cost*
Status quo + new lease	790 000 000	131 000 000	5 310 000 000	6 100 000 000

VIII. Conclusion and recommended actions

41. Within the parameters considered, the findings of the study point to advantages for the United Nations in constructing on the North Lawn. A North Lawn office building emerged as possibly the best new building option. It would best satisfy the vision principles, present the lowest cost, lowest risk and would accommodate the most United Nations staff in a newly constructed and owned United Nations building. Given recent developments regarding UNDC-5, this conclusion would be subject to re-evaluation once fully comparable cost estimates and other parameters, such as the actual floor area and timing of availability of UNDC-5, are known.

42. Constructing United Nations property does afford a number of advantages, including control over the timing and delivery of the new space on the North Lawn, control over the entire process and the opportunity to create a building tailored to the specific needs of the United Nations. A new North Lawn building would complete the campus as originally envisioned, unify the United Nations community and contribute to expressing the mission of the United Nations.

43. By 2023, the United Nations office space needs, including participating funds and programmes, will total 1.81 million square feet (168,150 square metres). This need will greatly exceed the capacity of the owned and leased buildings in the current United Nations real estate portfolio. It will be challenging to meet this need from existing or potential newly built real estate within the prescribed 10-minute walking distance.

44. Existing leases cannot provide adequate space and the United Nations currently rents much of what is available in the neighbourhood of the Secretariat campus. New, additional leases will likely exacerbate existing problems relating to security, coordination among departments, information technology and staff dispersion and isolation as well as commuting distances. New lease options have emerged as being more expensive and further away from the campus. Few buildings of the size of UNDC-1 and UNDC-2 stand anywhere in proximity to the campus without significant commuting times.

45. With United Nations Development Corporation leases expiring and an estimated continued 1.1 per cent staff growth, it is an advantageous time for the

United Nations to plan its approach to its future space needs and to continue the vision of the Organization. Depending on the outcome of the negotiations between the host Government authorities and the United Nations Development Corporation regarding UNDC-5 (cited in section VI of the present report), the conclusions of this report may require modification or reconsideration. However, that outcome will not be known until after 10 October 2011.

IX. Actions for the General Assembly

46. **The General Assembly is requested to take note of the present report and may wish to provide guidance to the Secretariat as to any further reporting on the options available for meeting long-term space requirements at Headquarters.**

United Nations A/66/350

General Assembly

Distr.: General
9 September 2011

Original: English

Sixty-sixth session
Item 138 of the provisional agenda*
Scale of assessments for the apportionment of the expenses of the United Nations

Letter dated 9 September 2011 from the Secretary-General to the President of the General Assembly

1. At present, six Member States are in arrears under the terms of Article 19 of the Charter of the United Nations, which states:

> A Member of the United Nations which is in arrears in the payment of its financial contributions to the Organization shall have no vote in the General Assembly if the amount of its arrears equals or exceeds the amount of the contributions due from it for the preceding two full years. The General Assembly may, nevertheless, permit such a Member to vote if it is satisfied that the failure to pay is due to conditions beyond the control of the Member.

2. The minimum payments necessary to reduce the amounts owed by those Member States on their contributions so that they remain below the gross amount assessed for the preceding two full years (2009 and 2010) are as follows:

Member State	*Minimum payment (United States dollars)*
Central African Republic	295 304.00
Comoros	869 528.00
Guinea-Bissau	473 229.00
Liberia	356 639.00
Sao Tome and Principe	757 243.00
Somalia	1 185 573.00

(*Signed*) **BAN** Ki-moon
Secretary-General

* A/66/150.

11-49173 (E) 090911

Please recycle

United Nations A/66/351

General Assembly

Distr.: General
12 September 2011

Original: English

Sixty-sixth session
Item 134 of the provisional agenda*
Proposed programme budget for the biennium 2012-2013

Progress in the construction of additional office facilities at the Economic Commission for Africa in Addis Ababa

Report of the Secretary-General

Summary

Pursuant to section I of General Assembly resolution 63/263, in which the Assembly endorsed the conclusions and recommendations of the Advisory Committee on Administrative and Budgetary Questions (A/63/465), progress reports are to be submitted annually to the Assembly for all ongoing construction projects.

The present report provides an update on the current status of the construction of additional office facilities at the Economic Commission for Africa in Addis Ababa and the renovation of Africa Hall. The latest cost plan for construction is included as an annex to the present report.

* A/66/150.

11-49226 (E) 270911

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I. Introduction

1. Section II of the present report provides an update on the construction of additional office facilities at the Economic Commission for Africa in Addis Ababa since the previous report of the Secretary-General (A/65/351). Section III provides an update on the status of the renovation of Africa Hall.

2. By its resolution 56/270, the General Assembly approved the construction of additional office facilities at the Economic Commission for Africa in Addis Ababa. Subsequently, in its resolution 60/248, the Assembly endorsed the expansion of the scope of the project to include the construction of two additional floors. In its resolution 62/238, the Assembly took note of the report of the Secretary-General (A/62/487) and endorsed the related recommendations of the Advisory Committee on Administrative and Budgetary Questions (A/62/7/Add.11) for a revised cost estimate totalling $14,333,100.

3. In its resolution 65/259, the General Assembly requested the Secretary-General to expeditiously assess the status of the Conference facilities at the Economic Commission for Africa in particular Africa Hall and Conference Room 1, and to report thereon in the context of his next annual progress report.

II. Progress in the construction of additional office facilities at the Economic Commission for Africa in Addis Ababa

A. Construction progress

4. The construction contract was signed on 1 April 2010. The construction commenced on 1 May following four weeks of mobilization. The construction was scheduled to be substantially completed by 28 February 2012; however, the limited availability of cement on the local market as outlined in the previous report of the Secretary-General (see A/65/351), has necessitated the importation of cement, resulting in the extension of the construction period by six months until the end of August 2012 to be followed by approximately six months of interior set-up by the agencies that will occupy the building.

5. Since the importation of cement is regulated by the host Government, discussions were carried out with the host Government with the aim of finding a timely solution to the cement shortage issue. As cited in the report of the Advisory Committee on Administrative and Budgetary Questions (A/65/518), the Economic Commission for Africa worked closely with the host Government to obtain a special permit so that the contractor could import the required quantity of cement for the project. The processing of the special permit took five months, and the cement arrived at the contractor's warehouse on 3 December 2010, within one month of the order. It should be noted that the cooperation of the host Government facilitated the importation of cement.

6. In April 2011, the effects of the cement shortage were also discussed with representatives from the Office of Central Support Services at Headquarters, officials from the Economic Commission for Africa, the contractor and the local architectural and engineering firm. At that meeting, it was agreed that the deadline of the project would be extended by six months, owing to the cement shortage.

7. As a direct result of the close collaboration between the Economic Commission for Africa and the host Government, the progress of construction since the arrival of the first cement delivery has been positive. As at the end of June 2011, 30 per cent of the construction work had been completed. Since April 2011, the contractor has put in place an accelerated programme of work, which has had a positive impact on the project.

8. The Economic Commission for Africa continues to collaborate with Government officials at the Ministry of Foreign Affairs of Ethiopia and other local authorities to ensure a steady supply of the required cement to complete the building's structural components. The Ministry recently granted permission for the importation of additional cement, to be delivered in October 2011. The facilitation of the importation of the cement and the support for the provision of the drainage system, among other actions, point to the positive collaboration between the Economic Commission for Africa and the Government of Ethiopia, in particular the Ministry of Foreign Affairs and the city government of Addis Ababa.

9. The new office facilities project has now reached a crucial phase that requires the importation of many of the finishing materials, equipment and fixtures. The Economic Commission for Africa will start the importation process shortly. The ongoing support of the Ministry of Foreign Affairs in facilitating the importation of the materials and equipment is critical.

10. The Economic Commission for Africa intends to use energy-efficient lighting systems throughout the project. At the beginning of 2011, a four-person team from the Economic Commission for Africa visited the recently completed additional office facilities at the United Nations Office at Nairobi to gain experience regarding the technology used and review the lessons learned. On the basis of the team's evaluation of both the lighting fixtures and the water supply systems, the Economic Commission for Africa has proposed energy-efficient solutions that could significantly reduce operational costs.

B. Host country agreement for duty-free and tax-free status

11. The voucher system for the project's value added tax-free status, in respect of local purchase of goods and services, continues to be implemented.

C. Site works to be executed according to the host country agreement

12. A storm drainage line, which crossed the new Economic Commission for Africa compound in a north-south direction, was the last obstacle to the construction of the building. After a first-hand assessment of the problem by senior officials of the Addis Ababa city administration, the drainage line was diverted by the local government in September 2010. The diversion has benefited not only the Economic Commission for Africa but also others in the neighbourhood who were affected by storm water.

D. Procurement

13. As mentioned in the previous report of the Secretary-General (A/65/351), provisions for the construction of an additional floor were made in the construction contract in the event that additional funding resources could be obtained. This funding was confirmed by the Department of Field Support, and on 23 December 2010, an amendment to the contract was signed.

14. The three elevators, which had been removed from the project scope in order not to exceed the project budget, were separately contracted by the Economic Commission for Africa on 11 March 2011. Manufacturing of the elevators is under way and their delivery date is scheduled to be within six months of the date of the signed contract.

15. A tender was issued in September 2010 to hire a firm for the provision of independent technical advisory and quantity surveying services, and the contract was awarded to a local engineering firm. More detail on these advisory roles is provided in paragraph 18 below.

16. The auxiliary projects that were budgeted for but not included in the initial design of the building include the site works, information technology and telephone equipment, landscaping and parking, internal roads, generators and generator housing. The design of the information technology and telephone equipment has been completed by the information technology professionals of the Economic Commission for Africa. A tender for the design of the other projects was issued in December 2010. A contract was signed with the selected design consultant on 20 April 2011, and the design works are under way. The design and construction works of these auxiliary projects is expected to be substantially completed within the revised time frame for the occupation of the building.

E. Project management

17. As summarized in the previous reports, the Executive Secretary of the Economic Commission for Africa, or his or her designee, oversees the construction project and acts as the liaison with the Government of Ethiopia. The Director of the Division of Administration at the Economic Commission for Africa assists the Executive Secretary with the overall management of the project, including with administrative and financial issues. Since the last report, the Compound Advisory Committee has been broadened to include representatives from all major agencies of the United Nations system based in Addis Ababa to provide advice on the project, including decisions on eventual space allocation. A technical materials selection committee has been established to evaluate and approve project-related submittals.

18. The independent technical adviser and the independent quantity surveyor, contracted in March 2011, are advising and reporting to the Director of the Division of Administration at the Economic Commission for Africa in their respective area of specialization. The independent technical adviser is responsible for monitoring the quality and progress of the construction, as well as assessing the technical and financial reports submitted by the project management team, and is to advise on any required course of action. The independent quantity surveyor is responsible for the verification of executed works, review of the contractor's invoices and the

verification of unit rates for all new items of work as may be necessary during the construction process.

19. Day-to-day project management and administration oversight are performed by a project management team led by a senior project manager who is currently supported by a staff member at the P-3 level and two support staff. In addition, other personnel have been added to support the construction and monitoring activities. A technical supervisor at the P-3 level has been recruited and a budget officer, an administrative assistant and dedicated staff for importation management have been assigned. Furthermore, the local architectural consultant team provides the necessary day-to-day construction supervision, testing and commissioning, and will continue to do so during the warranty period phases.

20. The Division of Administration, Facilities Management Section, General Services Section, Security and Safety Section and Information Technology Services Section at the Economic Commission for Africa continue to provide additional technical and administrative expertise in their respective areas and will do so throughout the construction period. They also help to support and provide the necessary leadership for all the auxiliary projects. As stated in paragraph 16 above, additional consultants are working on the design and preparation of the tender documentation for the landscaping and related auxiliary projects.

21. Administrative and coordination arrangements, agreed upon by the Office of Central Support Services and the Economic Commission for Africa, define the roles and responsibilities of the project stakeholders. The agreement establishes the procedures for the initiation and approval of change orders, project reporting, budgetary and financial management and audits. It is regularly updated to include new developments.

22. The Office of Central Support Services at Headquarters continues to provide the necessary coordination, support and guidance on project management and technical matters, and recently deployed two separate missions, with senior-level representatives from the Facilities Management Service and Procurement Division, to support the Economic Commission for Africa in the overall management of the project. Headquarters continues to hold regular weekly conference-call meetings with the project team and monthly video teleconferences with senior-level management as part of their ongoing project support.

F. Car parking and landscaping

23. As indicated in the previous report of the Secretary-General (A/65/351), the parking policy has been finalized, but implementation was halted owing to emerging security concerns which required the closure in December 2008 of the parking area located underneath the conference centre building. The Economic Commission for Africa is currently undertaking two projects that will further reduce the number of available parking spaces during their implementation: the PACT II security installation and the expansion of the north parking area. Both projects are scheduled to take 11 months. During this period, the Economic Commission for Africa will only be able to provide parking spaces for official cars and for dignitaries attending meetings. Very limited parking space will be available for staff member vehicles.

G. Information and communications technology equipment and backup generators

24. The design work and preparation of specifications for the information and communications technology equipment has been completed with the help of information technology professionals from the Economic Commission for Africa. The procurement process for the equipment is under way. Owing to the cement shortage affecting construction progress, the installation of information and communications technology equipment has been rescheduled to early to mid-2012.

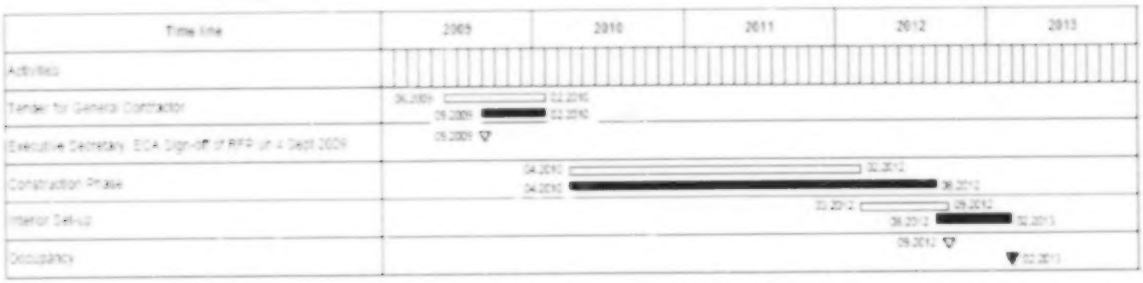
25. Specifications for two backup generators for the project have been finalized by the Economic Commission for Africa's Facilities Management Section and the procurement process is under way.

H. Project schedule

26. The revised project schedule is shown in the table below. As noted previously, the construction schedule has been extended by six months compared with the schedule in the previous report.

27. The construction, now scheduled for completion in August 2012, will be followed by an interior set-up lasting approximately six months. The cost of the interior set-up will be funded by the occupants and is dependent upon their individual requirements. Currently, the Facilities Management Section at the Economic Commission for Africa, through the Compound Advisory Committee, is reviewing these requirements with the agencies scheduled to move into the building.

Revised project schedule for the additional office facilities at the Economic Commission for Africa



I. Cost estimates

28. A detailed breakdown of the latest cost estimate is provided in the annex to the present report.

29. During the initial phase of construction, discrepancies were found between the quantities of some items specified in the contract and quantities used in the construction, particularly for concrete and reinforcement bars in the building foundations. These omissions were the result of an error on the part of the architecture and construction management consultant prior to the tender phase. The consultant was immediately notified and instructed to conduct a thorough check on the entire bill of quantities. During the review process, the consultant found underestimations of the contract quantities on some items and overestimations on others. The consultant also identified additional items of work that were not included in the original contract and others that should have been removed from the contract.

30. The discrepancies are expected to increase the cost of construction but not the amount of overall funding required for the project. During discussions with the team from Headquarters that visited the project in April 2011, the issue of the discrepancy was raised and a decision was reached to include the additional amount as an amendment to the contract. Prior to this, it was agreed to have the quantities certified and validated by both the contractor and the independent quantity surveyor hired by the Economic Commission for Africa, in order to minimize any further changes. The consultant has admitted that the initial estimated quantities were erroneous. In the meantime, the construction work is continuing and the Procurement Division, the Office of Legal Affairs and the Economic Commission for Africa are reviewing the case to determine what actions can be taken in accordance with the provisions of the contract.

31. It is noted that the cost of discrepancies, provisionally estimated at $734,000, will substantially deplete the budgeted contingency of $925,186, which is a matter of concern and a risk to the project. With such a low level of contingency funds remaining, it will be challenging to complete the project within budget. Nevertheless, every effort will be made to keep costs within the available budget.

J. Conclusion

32. As at June 2011, the new office facilities project was 30 per cent complete, while about 50 per cent of the contracted time had elapsed. That was mainly due to the prevalent shortage of cement. The Economic Commission for Africa is working with the contractor to accelerate the construction process in order to complete the project by the end of August 2012.

33. Since February 2011, the contractor's proposed enhanced workplan methodology has included working extra hours and deploying more resources to the construction site. The project team is working diligently on the selection of all the finishing materials and collaborating with the host Government in order to avoid future delays owing to importation restrictions.

III. Status of the renovation of Africa Hall

A. Project summary

34. Pursuant to the request of Member States and as noted in General Assembly resolution 65/259, the ECA, in collaboration with the United Nations Educational, Scientific and Cultural Organization and the African Union, has launched the renovation of Africa Hall to make it a "monument to modern African history" on the occasion of the fiftieth anniversary of the Economic Commission for Africa. The Facilities Management Section at the Economic Commission for Africa has evaluated the functionality of the hall in order to achieve a modern conference facility, incorporating exhibition and museum spaces, upgrading all furniture and conference support installations, preserving and restoring historical and cultural values imbedded in the architecture, enhancing safety of the facility and incorporating accessibility for persons with disabilities.

35. To achieve the above, the Facilities Management Section at the Economic Commission for Africa requires a team of specialized professionals (consultants) to produce a coordinated design that includes architectural, structural, mechanical, electrical interior design and quantity surveying components to achieve the required quality of renovation. The Facilities Management Section has finalized the terms of reference for the required consultancy service and is in the process of solicitation.

B. Project schedule

36. The Facilities Management Section at the Economic Commission for Africa has allocated $27,000 for the waterproofing of the terrace and roof slab, and is in the process of engaging a consultant who will develop a phased renovation plan. For the biennium 2012-2013, the Economic Commission for Africa has earmarked $437,000 for the renovation of key electrical, mechanical and interior finishing. The implementation phase of this project is to take place in early 2012, and the actual scope of work to be accomplished will be finalized once the consultant's proposed plan has been completed.

37. Furthermore, additional restoration and renovation work will be required in the future, including replacement of the elevators, protection of the exterior stone, repair of the window gaskets and sealants and replacement of the galvanized piping and deteriorating sanitary fixtures.

IV. Actions to be taken by the General Assembly

38. **The General Assembly is requested to take note of the report.**

Annex

Latest cost plan for the construction of additional office facilities at the Economic Commission for Africa

(United States dollars)

			Projected expenditure		
	Expenditure as at 31 December 2010	*Expenditure January–June 2011*	*July–December 2011*	*2012*	***Total***
Approved in resolutions 56/270 and 60/248					
Construction costs[a]	663 737	897 782	3 961 775	3 671 646	**9 194 940**
Design, consultancy services and project coordination	1 362 810	30 543	69 987	117 878	**1 581 218**
Site work	29 273		400 000	724 027	**1 153 300**
Workstations and furniture				262 800	**262 800**
Contingencies[b]			63 729	127 457	**191 186**
Approved in the programme budget for the biennium 2008-2009					
Installation of information technology and telephone equipment			300 000	800 000	**1 100 000**
Approved in resolution 62/238					
Safety and security				759 800	**759 800**
Internal access roads			30 000	100 000	**130 000**
Parking and landscaping			60 000	600 000	**660 000**
Generators and generator house			210 000	90 000	**300 000**
Total	**2 055 820**	**928 325**	**5 095 491**	**7 253 608**	**15 333 244**

Note: Table does not include the Economic Commission for Africa's expenditure of general funds for the new office facilities project, as follows: actual as at 31 July 2011: $1,170,505; estimated by 31 December 2011: $1,283,249.

[a] Construction costs include $7,460,796 as approved in resolution 62/238; $1,000,145 in additional resources from the Department of Field Services for the top floor; and $734,000 as a result of discrepancies in the bill of quantities (referred to in para. 31).

[b] Budgeted contingency of $925,186 is shown here at a residual value of $191,186 as a result of use to cover discrepancies in the bill of quantities ($925,186-$734,000).

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Transitional measures concerning financial reporting by the Office of the United Nations High Commissioner for Refugees under the International Public Sector Accounting Standards

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly a report of the United Nations High Commissioner for Refugees on transitional measures concerning financial reporting by the Office of the United Nations High Commissioner for Refugees under the International Public Sector Accounting Standards.

* A/66/150.

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Transitional measures concerning financial reporting by the Office of the United Nations High Commissioner for Refugees under the International Public Sector Accounting Standards

Report of the United Nations High Commissioner for Refugees

1. The General Assembly, through its resolution 60/283, approved the adoption of the International Public Sector Accounting Standards as the accounting standard for all United Nations organizations to replace the United Nations system accounting standards.

2. The Office of the United Nations High Commissioner for Refugees (UNHCR) aims to be compliant with the International Public Sector Accounting Standards as of 1 January 2012. In this regard, the financial rules for voluntary funds administered by the High Commissioner for Refugees (A/AC.96/503/Rev.9), which are currently in accordance with the United Nations system accounting standards, are being revised and will be submitted to the Executive Committee of the High Commissioner's Programme for its approval at its sixty-second session, which will be held in Geneva from 3 to 7 October 2011.

3. Subject to the approval by the Executive Committee, these financial rules are promulgated by the High Commissioner. They govern all financial activities pertaining to UNHCR voluntary funds and must be consistent with the Financial Regulations of the United Nations.

4. Noting the timing of the revision of the Financial Regulations and Rules of the United Nations to comply with the Standards, the High Commissioner requests, for the sole purpose of the Office's timely implementation of the Standards, the General Assembly to authorize UNHCR to apply mutatis mutandis the Financial Regulations and Rules to its voluntary funds accounting processes and financial reporting in a manner that allows it to be compliant with the Standards as of 1 January 2012.